

Janus Henderson Horizon Pan European Smaller Companies Fund

Q3 2019

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Fund manager names: Ollie Beckett

Assistant fund manager name: Rory Stokes

Overview

Markets were volatile during the third quarter as the US-Sino trade war pendulum swung back and forth before finishing with optimism of a deal being agreed (or at least delays to further tariffs). The positive mood of markets in September also saw investors question the now extreme global inflation expectations. In turn, the value style outperformed growth for the first time in many months. This was to the benefit of the fund in September, which continues with its valuation-conscious approach to stock selection.

Performance and activity

Positive contributions included recipe and meal box company Hellofresh, which has now reached profitability and continues to see user growth. We also had good returns from UK outsourcer Capita which bucked the trend in the UK and announced decent results, and Varta, which is seeing sustained demand for its coin batteries from the ever-growing headsets/earphones market.

On the negative side our holding in Burford Capital was subject to a short attack where the seller highlighted governance issues and accused the company of misleading investors on profitability in historical litigation cases. The company quickly produced a detailed rebuttal that addressed most of the areas of concern. In addition to the rebuttal, the company has been forced to rectify some governance issues that we have pressed them on for some time. Namely, the CFO is now independent (previously it was the CEO's wife) and the company is seeking an additional listing in New York (currently a junior UK listing) which will require greater disclosure to investors. We believe the company remains well placed in an immature and growing industry, but it seems unlikely to attract a premium valuation again in the near term. With all of these factors considered, we decided to proceed with a smaller position size.

Another detractor was flooring company Tarkett which has struggled to pass on raw material cost increases (a rising oil price) to their customers in the form of price hikes. The low valuation keeps us as holders. A position in online gambling company Kindred also lagged, with margins disappointing due to rising costs.

In terms of other activity, we bought Avast which has built a 435-million user base driven by its free anti-virus software. The company is looking to increasingly monetise that user base and it is also moving into mobile security. A placing offered us a good liquidity event to enter the shares. We also bought Deutz which makes off-highway engines (agricultural and industrial generators). The shares have sold off due to macroeconomic concerns but with a bearish scenario factored into the valuation, a good position in electric vehicles (EV) and a potentially interesting joint venture in China, the risk reward seems in our favour. We sold Tessenlerlo as we have grown increasingly frustrated with the poor (and not improving) governance structure.

Outlook

We believe that Europe and its small cap businesses are set for a period of better performance driven by improving M1 money supply, central bank easing, micro fundamentals looking robust and purchasing managers' indices (PMIs) reaching historic extremes. Couple this with the asset class being woefully out of favour with allocators and we believe the conditions are ripe for some mean reversion.

Source: Janus Henderson Investors, as at 30 September 2019

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

Benelux

Janus Henderson Investors
Tel: +31 20 675 0146
Fax: +31 20 675 7197
Email: info.nederlands@janushenderson.com

France/Monaco/Geneva

Janus Henderson Investors
Tel: +33 1 53 05 41 30
Fax: +33 1 44 51 94 22
Email: info.europe.francophone@janushenderson.com

Germany/Austria

Janus Henderson Investors
Tel: +49 69 86 003 0
Fax: +49 69 86 003 355
Email: info.germany@janushenderson.com

Dubai

Janus Henderson Investors
Tel: +9714 401 9565
Fax: +9714 401 9564
Email: JanusHenderson-MEACA@janushenderson.com

Hong Kong

Janus Henderson Investors
Tel: +852 2905 5188
Fax: +852 2905 5138
Email: marketing.asia@janushenderson.com

Italy

Janus Henderson Investors
Tel: +39 02 72 14 731
Fax: +39 02 72 14 7350
Email: info.italy@janushenderson.com

Latin America

Janus Henderson Investors
Tel: +44 20 7818 6458
Fax: +44 20 7818 7458
Email: sales.support@janushenderson.com

Nordics

Janus Henderson Investors
United Kingdom
Tel: +44 20 7818 4397
Fax: +44 20 7818 1819
Email: sales.support@janushenderson.com

Singapore

Janus Henderson Investors
Tel: +65 6836 3900
Fax: +65 6221 0039
Email: marketing.asia@janushenderson.com

Spain/Portugal/Andorra

Janus Henderson Investors
Tel: +34 91 562 6172
Fax: +34 91 564 6225
Email: info.iberia@janushenderson.com

Switzerland (Germanic)

Janus Henderson Investors
Tel: +41 43 888 6262
Fax: +41 43 888 6263
Email: info.switzerland@janushenderson.com

United Kingdom

Janus Henderson Investors
Tel: +44 20 7818 1818
Fax: +44 20 7818 1819
Email: sales.support@janushenderson.com

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