

JANUS HENDERSON HORIZON FUND – JAPANESE SMALLER COMPANIES FUND

A2 USD ISIN LU0011890265

At a glance

Performance

The Fund returned 1.88%, the Index returned 2.85% and the Sector returned 1.06%.

Contributors/detractors

Positive contributors included Japan Steel Works, Aiful and Taiyo Yuden while detractors include Asahi Intecc, Denka and Demae-can.

Outlook

Cross-shareholdings appear to be increasingly viewed by investors as an area where capital management needs to be improved.

Portfolio management



Yunyoung Lee, CFA

Investment environment

- Japanese equities rose in March due to expectations for the end of deflation, given that valuations tend to increase in a modest inflationary environment.
- Japan also ended its eight-year period of negative interest rates - which proved an extraordinary form of large-scale monetary easing that continued for many years - as the Bank of Japan (BoJ) believes the economy has recovered moderately and that it is likely that wages will continue to increase steadily. Meanwhile, Japan union group (which represents around seven million workers) announced the biggest wage hikes in 33 years.
- The market rally was driven by large-caps (as small-caps underperformed) given foreign investors initially positioned into large-cap stocks they know and like.

Portfolio review

Major positive contributors included Japan Steel Works (steel), Aiful (consumer finance), Taiyo Yuden (electric parts), Sawai Group Holdings (generic drugs) and Daio Paper (paper). Japan Steel Works is one of the few manufactures worldwide capable of producing large single-piece components for nuclear reactor pressure vessels and demand for nuclear power plants has been expanding.

Aiful's share price rose due to expectations for a new medium-term business plan that would reflect the recent cost control efforts and its management's focus on profit growth. Shares in Taiyo Yuden rose, driven by a recovery of demand for ceramic condensers used in smartphones and PCs, while Sawai's shares rose due to a government policy change, which rewarded large-sized generic drug makers. Daio Paper's share price increased from what seemed a low valuation level due to expectations for an earnings recovery.

The biggest detractors included Asahi Intecc (medical devices), Denka (chemicals), Demae-can (food delivery), Nihon M&A Center Holdings (merger and acquisition agent) and Gakken Holdings (nursing homes). Asahi Intecc's share price fell due to concerns about its Chinese and European businesses, while Denka, Demae-can, Nihon M&A Center Holdings and Gakken all saw their share prices fall due to concerns around earnings forecasts.

Marketing communication

Past performance does not predict future returns.

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In terms of activity, we increased the positions in TRE Holdings (recycling), Koa (electric parts), Park24 (parking lots) and Dip (human resources). We also initiated a new position in Fujitsu General (air conditioners).

We decreased the fund's positions in Sawai Group Holdings (generic drugs), Pigeon (baby bottles), Life (supermarkets), Kyorin Pharmaceutical (drugs), Harmonic Drive Systems (factory automation) and Denka (chemicals) and closed the positions in Union Tool and Ulvac (both semiconductor firms).

Manager outlook

Japanese corporates are well aware of the investor

pressure on cross-shareholdings and other issues. This could encourage some companies to announce additional shareholder engagement campaigns, which include share buy-back and dividend increases. These announcements tend to be ahead of the AGM season in June.

Glass Lewis and ISS have been providing extremely clear guidance on what they view as acceptable levels of cross-shareholdings in Japan. From a capital efficiency and corporate governance standpoint, cross-shareholdings appear to be increasingly viewed by investors as an area where capital management needs to be improved.

Performance (%)

Returns	Cumulative				Annualised			
	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	
A2 USD (Net) with sales charge	-3.22	-8.08	-8.08	0.79	-3.95	4.78	6.26	
Index	2.85	4.52	4.52	15.06	0.13	3.79	6.11	
Sector	1.06	2.14	2.14	8.23	-3.58	2.97	5.82	
A2 USD (Net)	1.88	-3.24	-3.24	6.10	-2.29	5.86	6.80	

Calendar year	YTD at Q1					
	2024	2023	2022	2021	2020	2019
A2 USD (Net)	-3.24	12.85	-10.97	1.71	9.08	33.15
Index	4.52	15.39	-11.78	-2.81	4.97	18.34
Sector	2.14	10.83	-18.61	-1.24	13.59	20.35

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Fund charges will impact the value of your investment. In particular, the ongoing charges applicable to each fund will dilute investment performance, particularly over time. For further explanation of charges please visit our Fund Charges page at www.janushenderson.com.

Note that any differences among portfolio securities currencies, share class currencies and costs to be paid or represented in currencies other than your home currency will expose you to currency risk. Costs and returns may increase or decrease as a result of currency and exchange rate fluctuations.

Performance fees may be charged before the Fund's outperformance target is reached.

Performance fees are charged separately as a way of rewarding the investment manager for superior returns or for outperforming specified targets. A Performance Fee is accrued where the NAV outperforms the relevant Hurdle NAV (subject to a High Water Mark). For further explanation of the performance fee calculation methodology please see the relevant prospectus, available at www.janushenderson.com.

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Fund details

Inception date	01 August 1985
Total net assets	¥43.88bn
Asset class	Equities
Domicile	Luxembourg
Structure	SICAV
Base currency	JPY
Index	Russell/Nomura Small Cap Index
Morningstar sector	Japan Small/Mid-Cap Equity

Investment objective

The Fund aims to provide capital growth over the long term. The Fund invests at least two-thirds of its assets in a concentrated portfolio of shares (equities) and equity-related securities of small capitalisation companies, in any industry, in Japan or derive a significant portion of their revenues from Japan.

Fund specific risks

When the Fund, or a share/unit class, seeks to mitigate exchange rate movements of a currency relative to the base currency (hedge), the hedging strategy itself may positively or negatively impact the value of the Fund due to differences in short-term interest rates between the currencies. The Fund could lose money if a counterparty with which the Fund trades becomes unwilling or unable to meet its obligations, or as a result of failure or delay in operational processes or the failure of a third party provider. Shares/Units can lose value rapidly, and typically involve higher risks than bonds or money market instruments. The value of your investment may fall as a result. Shares of small and mid-size companies can be more volatile than shares of larger companies, and at times it may be difficult to value or to sell shares at desired times and prices, increasing the risk of losses. If a Fund has a high exposure to a particular country or geographical region it carries a higher level of risk than a Fund which is more broadly diversified. The Fund may use derivatives with the aim of reducing risk or managing the portfolio more efficiently. However this introduces other risks, in particular, that a derivative counterparty may not meet its contractual obligations. If the Fund holds assets in currencies other than the base currency of the Fund, or you invest in a share/unit class of a different currency to the Fund (unless hedged, i.e. mitigated by taking an offsetting position in a related security), the value of your investment may be impacted by changes in exchange rates. Securities within the Fund could become hard to value or to sell at a desired time and price, especially in extreme market conditions when asset prices may be falling, increasing the risk of investment losses.

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Source: Janus Henderson Investors, as at 31 March 2024, unless otherwise noted.

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