Janus Henderson Absolute Return

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund benefits from the skills of its two experienced managers, whose ability to combine fundamental insights and technical analysis are important drivers of performance.
- They are adept at flexing the fund's net and gross position, according to their assessment of the opportunity set. They always have a firm grasp of the portfolio's factor, style and correlation risks.
- The strategy is large in size but is open to new investors at present.

Key characteristics and expected outcome

- We consider the fund to be "conditionally directional", in that the managers adjust the fund's net and gross exposures actively. This means that its sensitivity to market direction varies meaningfully, depending upon their views and the available opportunity set.
- When observing the long-term characteristics of the fund, it is lowly-correlated to equity markets.
- The pattern and delivery of performance depends upon the opportunities perceived by the managers at any point in time. The fund can experience periods of strong performance and periods of fallow performance. Although the managers seek to limit drawdowns, investors should also be prepared for periods of negative returns.
- This is a defensive strategy for long-term investors who are seeking exposure to UK and overseas equities.
- Note: the fund has a performance fee - see prospectus for details.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 4. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 4 means the fund's historic volatility is between 5% and 10%.

The fund's risk score is towards the lower end of the 5%-10% range. Our analysis indicates that the fund's risk score has oscillated between 4 and 3, which is to be expected given the "conditionally directional" nature of the fund. In other words, the managers are prepared to take variable exposure to market risk according to their views which can result in the fund's risk characteristics rising and falling over shorter-time periods. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	14 April 2009
Manager(s) Since:	Ben Wallace (Apr 09) Luke Newman (Apr 09)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	Bank of England Base Rate
IA Sector:	Targeted Absolute Return

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at fundresearchcentre.co.uk.

Fund Snapshot

An equity fund that incorporates long and short positions in UK and overseas companies, managed with a view to delivering positive performance and limiting drawdowns. The net exposure to equities is adjusted pro-actively according to the perceived opportunity set. The approach is informed by the managers' top-down views and industry factors affecting firms. Within its sector, the fund features in our 'Long/Short Equity, Conditionally Directional' category.

Investment Team

The fund is co-managed by Luke Newman and Ben Wallace, who joined Henderson as part of the group's takeover of Gartmore in 2011. The managers work closely together with analysts, Dan Davies and Gary Thomson, and all are involved in generating ideas for the strategy. They also draw input from the wider Pan-European Equities team.

Investment Philosophy

The managers believe that companies outperform over time by growing earnings in excess of market expectations. They believe a stock research process that is focused on earnings surprises can identify long and short investment ideas that can be combined to deliver positive returns.

Investment Process

The investment process is informed by the managers' views on top-down economic and industry factors affecting company performance and earnings. The primary focus is on the analysis of the largest 350 companies in the UK, with a particular focus on the top 100. The fund may also invest up to 40% of its total assets in companies listed outside the UK, for example, European and US mega-cap companies. The managers undertake regular, detailed reviews of the stocks in their universe to understand the industry, business strategy, growth prospects and assess the drivers of, and risks to, earnings in different scenarios.

The resulting company knowledge leads to long and short investment ideas. The portfolio is structured around core and tactical allocations, which contain both long and short positions. The core book typically accounts for around one-third of the portfolio and positions have an expected holding period in excess of three months. In this part of the portfolio, long positions are held in companies with unexpected earnings growth or value creation potential. Short ideas are deployed when they believe that earnings growth is already priced into a stock price, or where earnings are likely to disappoint. The tactical book represents around two-thirds of the portfolio and positions have an expected holding period of less than three months. Here, the managers seek to profit from perceived anomalies and inefficiencies (over-bought/over-sold situations, management change etc), market timing issues (sector rotations, broker upgrades etc) and technical situations (IPOs/placings etc). Positions are reassessed at +/-10% price moves.

Portfolio Construction and Risk Controls

The fund's overall exposure to markets is determined primarily by the perceived opportunity set and can change significantly over time. The gross exposure may not exceed 300%, but the typical range is 75%-150%. Net equity exposure ranges between 50% net short and 75% net long. Derivatives, such as Contracts for Difference (CFDs), are often used to implement both long and short positions. Stocks are sized according to risk/reward potential and volatility.

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