Flash Notes – Fund update

November 2020

Janus Henderson HF Global Sustainable Equity

Dear Partners,

Please find below a summary of recent performance update of the **Janus Henderson HF Global Sustainable Equity fund**, its sector positioning, and stock contributors.

We hope that you will find this communication insightful, should you have any further questions, related to this fund or any other one in the OpenList, do not hesitate to contact us, we would be delighted to assist you.

WS Partners view

Since Hamish Chamberlayne took over the strategy in 2012 as lead Portfolio Manager (PM), the fund displays a very **solid risk-adjusted track record with strong asymmetry of returns, lower volatility and drawdowns whilst beta being close to 1**.

The fund clearly ranks **1st decile in our WSP proprietary scoring** within its peer group. The fund is not only a strong outperformer in global sustainable strategies, but it also clearly ranks very high among global equity funds, highlighting the alpha generation derived from ESG. **Low exposure to FAANG stocks, good diversifier** within a Global Equity bucket.

Hamish Chamberlayne is a very experienced PM, with a long tenure managing the fund and **high commitment to sustainable investing**. Dedicated ESG internal resources at Janus Henderson are strengthening and the PM benefits from a large array of sources for idea generation and fundamental analysis.

WS Partners maintains the **Janus Henderson HF Global Sustainable Equity fund** with the **"Selected"** status initiated at the beginning of 2019**.**

Key Takeaways

- Over the quarter the MSCI World Index saw the information technology sector outperform while the energy sector plummeted by more than 15%.
- Both the European Union (EU) and the Chinese government have announced further steps towards carbon reduction, with the EU outlining their intention to reduce carbon emissions by 55% by 2030 and China targeting carbon neutrality by 2060.
- Rapid adoption of digital trends is contributing to a reduction in some of the negative environmental impacts caused by economic activity, but Hamish Chamberlayne, lead Portfolio Manager, believes there is still an urgent need to accelerate investment in the low carbon energy transition.

During the lockdown it has been hard at times to comprehend the monumental effect COVID-19 has had on the global economy by driving people indoors and online at a rate never before seen. While digitalisation has been a major investment trend for several years, the pandemic has undeniably accelerated it and it will be one of the dominant drivers of investment returns over the next decade. Closely linked to digitalisation is the transition towards low carbon energy. This trend has also been supported this year with political commitment towards investment in renewable energy, electrification of transport, energy efficient technologies and sustainable infrastructure. Going forward, governmental fiscal stimulus will be targeted towards green projects that align with the investment philosophy of sustainable development, innovation and long-term compounding growth.

Alignment to low carbon energy transition driving outperformance

While the sector positioning of the fund was beneficial to performance – having an overweight stance towards IT and an underweight position to energy – the stock selection was the most important factor contributing to outperformance of the strategy over the quarter. Of particular note was the fact that in the list of the top 10 contributors there was only one technology stock, which demonstrates the diversity and breadth of the portfolio. The strategy experienced a strong performance from the investments that are exposed to the low carbon energy transition, including renewable energy developers Boralex and Innergex, efficient electric motor company Nidec, low carbon building material manufacturer Kingspan, and water technology and infrastructure company Xylem.

Tesla was the biggest contributor to the strategy's performance. This year it has been the only major global automotive company to have reported sales growth and it achieved an important milestone in the quarter when it reported its fourth consecutive quarter of profitability, thereby making it eligible for inclusion in the S&P 500 Index. Tesla is very well positioned in respect of the low carbon energy transition and it has a hugely ambitious growth strategy for the coming decade. Another large contributor was Salesforce, which reported increased adoption of its cloud-based platform as its customers accelerated their digital transformation plans. The investment approach leads the investment team to seek out companies with the financial attributes of growth and resilience and Salesforce's results exhibited this in abundance with excellent Q2 results that led to a 25% increase in the share price the day after results were announced.

Strong performance also came from stocks in the Quality of Life theme, some of which have capitalised on the shift to e-commerce and direct digital distribution. Nintendo saw more customers purchase directly from the company's online store while Adidas bounced back from COVID-19 disruption and reported strong growth in online sales.

Some of the largest detractors to relative performance came from outside the portfolio as Apple, Amazon and Nvidia (none of which are owned) performed strongly. Within the portfolio, underperformance came mainly from the technology holdings. ASML was negatively impacted by a re-escalation in the US-China trade war, while some of the software holdings, such as Autodesk and Avalara, consolidated after a strong run of performance in the first half of the year.

Political steps towards a low carbon world

The European Union (EU) has earmarked 30% of its €750 billion COVID-19 recovery package to go towards sustainable projects including renewable energy and storage, sustainable buildings and public transport. There was further positive momentum from the incoming EU President who outlined ambitions to reduce emissions by at least 55% by 2030 instead of the 40% previously targeted. In other welcome news, China committed to peaking its carbon emissions by 2030 and achieving carbon neutrality by 2060. China is the world's second largest economy and the largest emitter of CO_2 so the announcement is a huge step towards a sustainable global economy and Hamish Chamberlayne hopes these goals can be quickly met and surpassed.

Elsewhere, more than 20 countries implement end dates for the sale of internal combustion engines. There is a broad trend to bring forward decarbonisation goals from a vague mid-century point towards a highly visible 2030 target date which sets us up for a decade of innovation.

The 3rd quarter saw economic activity around the world begin to thaw as governments were required to balance the need to reopen countries with the COVID-19 pandemic. Against this backdrop, global equity markets ended the quarter higher; the MSCI World Index delivered a total return of 7.9% in US dollar terms. The best performing sectors were information technology (IT), consumer discretionary and industrials, whereas the energy, financial and real estate sectors underperformed, with the energy sector falling by more than 15%.

Can digitalisation reduce the environmental harm caused by economic activity?

The world's struggle to ease lockdown restrictions is continuing to impact on parts of the economy reliant on getting people together physically. Counter to that, digitalisation is accelerating. While spurred on by COVID-19 , Hamish Chamberlayne expect that many of these digital trends will persist as people embrace the ease of use, enhanced productivity and efficiency that digitalisation offers.

Despite the encouraging adoption of digital trends, which he regards as being complementary to reducing the negative environmental impacts of economic activity, the increasing frequency and severity of climate-related events reminds us of the urgent need to accelerate investment in the low carbon energy transition. Fortunately, the pandemic does not appear to have had a significant negative impact. There is real momentum building behind this transition thanks to exciting business innovation in clean energy technologies combined with strong regulatory support from many governments.

Nowhere was this innovation more evident than in Tesla's recent update, which mapped out a clear investment plan to accelerate adoption of electric vehicles and clean energy. By 2030 Tesla's goal is to have multiple terawatts of battery production in place to allow 20 million affordable electric vehicles to be produced annually as well as large scale energy storage installations to support renewable energy systems. The investment team anticipates that Tesla's ambitious vision will catalyse a further step up in investment across the whole automotive and energy industries.

2020 has been a challenging year but the lead Portfolio manager is optimistic that the global economy will emerge from this pandemic more resilient, and on a more sustainable trajectory, than before. Instead of undermining it, he is hopeful that this crisis will serve to underline the attractiveness of sustainable investing and how it leads to better outcomes, not only for investors but also for the environment and society.