COMMENTARY

Janus Henderson Horizon Global High Yield Bond Fund

Q2 2023

Marketing communication - For professional investors only
Past performance does not predict future returns

Fund Managers Names

Tom Ross, CFA, Brent Olson, Tim Winstone, CFA, Seth Meyer, CFA

Investment environment

Global high yield credit (ICE BofA Global High Yield Credit Constrained Index) returned 1.6% (hedged to US dollars) in the second quarter. Excess returns (versus equivalent government debt) were positive as credit spreads tightened over the period.

Volatility in bond markets eased at the beginning of the quarter following the turbulence caused by the failure of Silicon Valley Bank and Credit Suisse in March. But spreads widened in early May in response to further weakness in the US regional bank sector with the emergency takeover of First Republic Bank. Drawn-out talks on the debt ceiling in the US sparked further volatility and led to spread widening coming into the end of the month before an agreement was eventually reached in June. June was dominated by interest rate headlines as core inflation remained sticky. Government bond markets sold off in response, while credit markets continued to rally, with investors now expecting further monetary tightening.

Yields on 10-year government bonds rose 37 basis points (bps) to 3.84% in the US and 10 bps to 2.39% in Germany. In the UK, 10-year gilts rose 90 bps to 4.39%, hitting highs not seen since the market turmoil in October 2022. The US Federal Reserve (Fed) raised interest rates by 25 bps in May but paused its rate-hiking cycle in June, although comments from policymakers suggested that more rate hikes in 2023 are likely. The European Central Bank (ECB) and the Bank of England (BoE) both hiked interest rates in April and May, with the BoE hiking by a larger-than-expected 50 bps in June after May's core inflation was surprisingly high.

All regions posted positive excess returns, with US high yield bonds the strongest, followed by European high yield and then emerging market high yield bonds. All rating categories in the US posted positive excess returns, with CCC-rated bonds leading the way, followed by B and BB-rated bonds. B-rated bonds outperformed in Europe, followed by BB-rated bonds, while CCC-rated bonds were negative over the quarter.

Portfolio review

The fund recorded a positive return in the second quarter but underperformed its benchmark.

The fund's underweight position to credit relative to the benchmark was the key driver of underperformance, as credit spreads tightened over the period. Security selection and sector allocation contributed positively to performance. At a sector level, the fund's overweight position to retail and security selection in telecommunications detracted from performance, as did security selection in the real estate and services sectors. More positively, security selection in the leisure and media sectors was a positive contributor to performance, as well as security selection in energy and banking sectors.

At the single-name level, US professional services company PECF USS and European real estate company CPI Property were the biggest detractors from performance. An overweight position in US retailer Victoria's Secret also hurt returns, as well as the holding in US biopharmaceutical manufacturer Catalent. Catalent's share price fell due to weak first quarter revenues and following the fall-out from the failed acquisition by Danaher. We exited this position in May. The biggest contributions to performance came from the overweight position in US cruise operator Carnival, as demand for cruise holidays has been proving a favourable trend, and lack of exposure to Mexican oil and gas firm Pemex, where spreads have widened due to a higher oil price. Overweight exposure to Mexican airport operator Grupo Aeroportuario, which operates Mexico City airport, also contributed positively to performance.

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Manager outlook

We maintained a small underweight to credit beta relative to the fund's index over the month. We continued to see signs of a tightening of lending conditions, which we expect to affect corporates of lower credit quality and/or of small to medium size. Thus, we continue to adopt a more defensive position. Leading recessionary indicators such as inverted yield curves and money supply are still pointing negative, but the timing of any recession is still unclear given the recent strong labour market data in the US. As a result, we expect at least one more rate hike from the Fed. In terms of the market technical, central bank reserves are to be unwound over the coming months across a number of central banks. The end of liquidity injections may result in wider spreads and lower risk asset prices in general.

In line with our more cautious stance, we continued to tilt the composition of our high yield bond holdings towards high-quality, non-cyclical companies with strong liquidity and fundamentally robust balance sheets, with a preference for defensive sectors such as health care and more recession-resistant sub-sectors within financial services.

We expect default rates to increase marginally, even in a soft-landing scenario given the extremely low rates of the recent past. In the event of a hard landing, we do not expect to see the previous high single-digit default percentages as a recession is widely anticipated and most companies have prepared for this with low leverage and plenty of cash on their balance sheets. Indeed, we are starting to see lower earnings revisions in the chemicals sector - typically one of the first sectors to trend negative during a recession.

Issuance in high yield bond markets remains light relative to historical levels and continues to be a positive market technical for the asset class. That said, we caution that the refinancing wall, though not right upon us, is getting closer as more and more companies will likely look to refinance. This is something we are monitoring closely.

High yield bond valuations do not seem to be pricing in any recession, be it mild or meaningful, but attractive yields are above average and provide some cushion against spread widening through more attractive carry. Our outlook is premised on the view that we will see shallow recessions in Europe and the US, which will provide better opportunities to move to an overweight credit position.

Source: Janus Henderson Investors, as at 30 June 2023

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Fund information (Investment policy is on the next page)

Index	ICE BofA Global High Yield Constrained Index (100% Hedged)
Morningstar sector	Europe OE Global High Yield Bond
Objective	The Fund aims to provide an income with the potential for capital growth over the long term.
Performance target	To outperform the ICE BofA Global High Yield Constrained Index (100% Hedged) by 1.75% per annum, before the deduction of charges, over any 5 year period.

Performance in (USD)

Performance %	A2 (Net)	Index	Sector	A2 (Gross)	Target (Gross)
1 month	1.4	1.5	1.4	-	-
YTD	3.7	4.9	4.2	-	-
1 year	5.5	9.3	7.9	-	-
3 years (annualised)	-0.2	2.0	1.7	-	-
5 years (annualised)	1.8	2.9	1.8	3.0	4.7
Since inception 19 Nov 2013 (annualised)	3.9	4.0	2.1	5.1	5.8

Source: at 30 Jun 2023. © 2023 Morningstar. All rights reserved, performance is with gross income reinvested. Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period.

Calendar year returns %	A2 (Net)	Index	Sector
2023 to 30 Jun 2023	3.7	4.9	4.2
2022	-14.6	-11.4	-11.7
2021	0.4	3.0	2.4
2020	6.2	6.5	5.3
2019	18.0	14.5	12.4
2018	-2.2	-1.9	-3.7
2017	8.5	8.0	8.1
2016	14.4	16.2	10.9
2015	1.0	-2.0	-5.0
2014	3.7	2.5	-1.0
2013 from 19 Nov 2013	1.6	1.0	1.1

Source: at 30 Jun 2023. © 2023 Morningstar. All rights reserved, performance is with gross income reinvested. Discrete performance data may change due to final dividend information being received after quarter end.

Investment into the fund will acquire units/shares of the fund itself and not the underlying assets owned by the fund.

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.

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 http://www.janushenderson.com.

Source for target returns (where applicable) – Janus Henderson. Please note the performance target is to be achieved over a specific annualised time period. Refer to the performance target wording within the objective. With effect from 1 January 2023, the Key Investor Information document (KIID) changed to the Key Information Document (KID), except in the UK where investors should continue to refer to the KIID. Availability of share classes shown may be limited by law in certain jurisdictions. Performance records/scenarios are detailed within the fund's specific KIID/KID, fees and charges, and the respective risk rating may vary. Further information can be found in the fund's prospectus and KIID/KID which must be reviewed before investing. Please consult your local sales representative if you have any further queries.

Past performance does not predict future returns. 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.

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What are the risks specific to this fund?

- An issuer of a bond (or money market instrument) may become unable or unwilling to pay interest or repay capital to the Fund. If this happens or the market perceives this may happen, the value of the bond will fall. High yielding (non-investment grade) bonds are more speculative and more sensitive to adverse changes in market conditions.
- 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.
- In addition to income, this share class may distribute realised and unrealised capital gains and original capital invested. Fees, charges and expenses are also deducted from capital. Both factors may result in capital erosion and reduced potential for capital growth. Investors should also note that distributions of this nature may be treated (and taxable) as income depending on local tax legislation.
- The Fund may invest in contingent convertible bonds (CoCos), which can fall sharply in value if the financial strength of an issuer weakens and a predetermined trigger event causes the bonds to be converted into shares of the issuer or to be partly or wholly written off.
- When interest rates rise (or fall), the prices of different securities will be affected differently. In particular, bond values generally fall when interest rates rise (or are expected to rise). This risk is typically greater the longer the maturity of a bond investment.
- Callable debt securities, such as some asset-backed or mortgage-backed securities (ABS/MBS), give issuers the right to repay capital before the maturity date or to extend the maturity. Issuers may exercise these rights when favourable to them and as a result the value of the fund may be impacted.
- Emerging markets expose the Fund to higher volatility and greater risk of loss than developed markets; they are susceptible to adverse political and economic events, and may be less well regulated with less robust custody and settlement procedures.
- The Fund may use derivatives to help achieve its investment objective. This can result in leverage (higher levels of debt), which can magnify an investment outcome. Gains or losses to the Fund may therefore be greater than the cost of the derivative. Derivatives also introduce other risks, in particular, that a derivative counterparty may not meet its contractual obligations.
- 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.
- Some or all of the ongoing charges may be taken from capital, which may erode capital or reduce potential for capital growth.
- The Fund may incur a higher level of transaction costs as a result of investing in less actively traded or less developed markets compared to a fund that invests in more active/developed markets. These transaction costs are in addition to the Fund's Ongoing Charges.

General risks

- Past performance does not predict future returns.
- 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.
- Tax assumptions and reliefs depend upon an investor's particular circumstances and may be subject to change.

Investment policy

The Fund invests at least 80% of its assets in high yield (non-investment grade, equivalent to BB+ rated or lower) corporate bonds, in any country. The Fund may invest up to 20% of its net assets in total return swaps, and may invest in contingent convertible bonds (CoCos); and/or asset-backed and mortgage-backed securities.

The Fund may also invest in other assets including bonds of other types from any issuer (including perpetual bonds), cash and money market instruments.

The investment manager may use derivatives (complex financial instruments), including total return swaps, with the aim of making investment gains in line with the Fund's objective, to reduce risk or to manage the Fund more efficiently.

The Fund is actively managed with reference to the ICE BofA Global High Yield Constrained Index (100% Hedged), which is broadly representative of the bonds in which it may invest, as this forms the basis of the Fund's performance target. The investment manager has discretion to choose investments for the Fund with weightings different to the index or not in the index, but at times the Fund may hold investments similar to the index.

Janus Henderson Horizon Global High Yield Bond Fund

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

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Important information

In accordance with the Sustainable Finance Disclosure Regulation, the Fund is classified as Article 8 and promotes, among other characteristics, environmental and/or social characteristics, and invests in companies with good governance practices.

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