COMMENTARY

Janus Henderson Horizon Euro 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, Tim Winstone, CFA

Investment environment

European high yield credit (ICE BofA European Currency Non-Financial High Yield 2% Constrained Index) returned 1.3% (hedged to euros) over 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. However, spreads widened in early May in response to further weakness in the US regional banking sector with the emergency takeover of First Republic Bank. Although positive corporate earnings and hopes that inflation had peaked across Europe improved sentiment somewhat in May, drawn-out talks on the debt ceiling in the US sparked further volatility and led to spread widening into month-end before an agreement was 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 10 basis points (bps) to 2.39% in Germany and 37 bps to 3.84% in the US. In the UK, 10-year gilts rose 90 bps to 4.39%, hitting highs not seen since the market turmoil in October 2022. 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. 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.

All regions posted positive excess returns, with US high yield bonds the strongest, followed by European and emerging market high yield bonds. By credit rating, B-rated bonds led the way in Europe on an excess return basis 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 the benchmark.

Security selection and sector allocation were the key drivers of underperformance over the quarter, mainly through the fund's overweight allocation to the telecommunications sector and selections in real estate. The fund's underweight position in credit relative to the benchmark also hurt returns, as credit spreads tightened over the period. Further, our selections in the health care sector were a detractor over the quarter. More positively, our off-benchmark allocation to banks contributed strongly to performance while security selection in leisure and technology and electronics also contributed positively.

At the single-issuer level, European real estate group CPI Property was one of the largest detractors from performance. Further detractors from performance over the quarter were German materials company Pfleiderer as well as Austrian chemical industrial company Lenzing. US biopharmaceutical manufacturer Catalent also detracted over the quarter due to weak first-quarter revenues and the fall-out from the failed acquisition by Danaher. We closed this position in May.

The biggest positive contributions to performance came from the fund's overweight positions in German bank Commerzbank and German automotive company Adler Pelzer, as well as an underweight position in real estate company SBB after the company was downgraded from investment grade to high yield status.

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Manager outlook

We maintained a small underweight position to credit beta relative to the fund's index. 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 to the downside, 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, telecommunications and utilities.

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 are not 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 European Currency Non-Financial High Yield Constrained Index (100% Hedged)
Morningstar sector	Europe OE EUR High Yield Bond
Objective	The Fund aims to provide a return, from a combination of income and capital growth over the long term.
Performance target	To outperform the ICE BofA European Currency Non-Financial High Yield Constrained Index (100% Hedged) by 1.75% per annum, before the deduction of charges, over any 5 year period.

Performance in (EUR)

Performance %	A2 (Net)	Index	Sector	A2 (Gross)	Target (Gross)
1 month	0.4	0.5	0.5	-	-
YTD	2.9	4.4	3.0	-	-
1 year	5.0	8.8	6.9	-	-
3 years (annualised)	-0.9	1.0	0.4	-	-
5 years (annualised)	0.2	1.2	0.3	1.4	2.9
10 years (annualised)	3.2	3.4	2.4	4.5	5.2

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	2.9	4.4	3.0
2022	-14.4	-11.7	-10.4
2021	2.0	3.3	2.5
2020	2.4	2.7	0.9
2019	11.6	10.8	8.8
2018	-2.3	-3.4	-4.2
2017	5.1	6.1	5.7
2016	9.5	10.0	7.6
2015	4.6	1.3	1.5
2014	3.6	5.0	3.8
2013	11.7	9.0	7.4

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.

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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?

- 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.
- 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.
- 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.
- 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.
- The Fund invests in high yield (non-investment grade) bonds and while these generally offer higher rates of interest than investment grade bonds, they are more speculative and more sensitive to adverse changes in market conditions.
- 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.
- 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 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.
- 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.
- Some or all of the ongoing charges may be taken from capital, which may erode capital or reduce potential for capital growth.

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 70% of its assets in high yield (non-investment grade, equivalent to BB+ rated or lower) corporate bonds, denominated in Euros or Sterling. 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 European Currency Non-Financial 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.

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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
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 3121 7000
Fax: +852 3121 7100
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 91 903 35 62
Email: iberia@janushenderson.com

Switzerland
Janus Henderson Investors
Tel: +41 43 888 62 62 (Zurich office)
Tel: +41 22 810 82 89 (Geneva office)
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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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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