

MULTI-SECTOR INCOME FUND

At a glance

Performance*

The Fund returned -0.98%, the Index returned -1.41% and the Sector returned -0.47%.

Contributors/detractors

Positioning on the yield curve contributed positively, as did our overall spread risk positioning.

Outlook

In our view, the key takeaway from the Federal Reserve's (Fed) dovish policy pivot is that it should result in a favourable multi-year outlook for fixed income.

Portfolio management



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Investment environment

- The US fixed income market posted a negative return in February, with the Bloomberg US Aggregate Bond Index declining 1.4%. High yield bonds outperformed investment grade corporate bonds and US Treasuries.
- Continued solid economic data and quarterly earnings made investors re-valuate when rate cuts may begin. The US saw a remarkably strong jobs report (with non-farm payroll growth up 517,000 versus the expected 185,000), while unemployment fell further from 3.5% to 3.4%.
- The January inflation reading of 3.1% was down from 3.4% in the prior month but was still higher relative to analyst forecasts of 2.9%. The yield on the US 10-year Treasury ended February at 4.25% relative to 3.91% at the end of January.
- Corporate investment grade credit spreads ended the month effectively flat versus the prior month at 0.96%. High yield credit spreads tightened 32 basis points to 3.12%, as investors increased their risk appetite on solid quarterly earnings results.

Portfolio review

The fund's underweight position to duration risk contributed positively to performance as rates rose during the month.

The overall spread risk positioning also contributed positively. Corporates, non-agency mortgages, collateralised loan obligations (CLOs) and emerging market debt were the key contributors. While high yield has continued to deliver strong excess returns, we have maintained the fund's exposure to the sector near historical lows due to their very tight spread levels and limited additional upside potential.

In contrast, we think emerging market debt is trading attractively relative to corporate credit, while many developing economies are ahead of the US Federal Reserve (Fed) in their rate easing cycles. Therefore, we have increased the allocation to emerging market debt.

We are focused on a diversified group of best ideas from our emerging market team that reflect countries with improving fundamentals and ratings potential. We are also concentrated in the below-investment grade portion of the emerging market index, as the investment grade segment continues to trade near historical highs.

In our view, the fund is well balanced and positioned for multiple economic scenarios. If the economy enters a recession, we expect our defensive duration position to

Marketing communication

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*For benchmark and sector, if applicable, refer to Fund details on page 3. For relevant descriptions, risks and the Fund's investment policy statement, refer to Additional fund information on page 4.

counter any spread widening, while our spread risk exposure is predominantly in securitised sectors where spread levels already reflect the risk of recession. On the other hand, if the Fed has engineered a 'soft landing', we would expect securitised spreads to narrow meaningfully and result in outperformance versus corporate-heavy benchmarks and peers.

We consider the 'hard' or 'soft landing' to be the two most likely scenarios. But in the less likely event that we see a resurgence in inflation and a rise in rates, we believe the portfolio's high distribution yield should help to soften any price effects from rising yields, while its underweight position to corporate debt should be a net positive as we would expect corporate spreads to widen meaningfully in this scenario.

Manager outlook

Following two years of tough talk and aggressive rate hikes, the Fed delivered some holiday cheer by way of a dovish pivot at its December meeting. Inflation has made a sustained move back towards target and has allowed the central bank to signal its intent to transition from a 24-month tightening campaign to an easing cycle. This is broadly positive for the economy and for fixed income markets.

Looser financial conditions and lower interest rates should bring some welcome relief for consumers and corporations. We also expect the Fed's dual mandate to shift back into balance. In 2022 and 2023, with inflation far too high, the central bank was focused on the one side of its mandate,

namely stable prices. But given its increased confidence that inflation will move back to its 2% target, the Fed recently highlighted the need to also focus on the other side of its mandate - full employment.

In our view, the key takeaway from this policy shift is that it should result in a favourable multi-year outlook for fixed income. We expect demand for the fixed income asset class to increase, as investors can lock in attractive yields and benefit from the diversification that bonds may bring to multi-asset portfolios.

While the outlook has continued to improve, we must also acknowledge the risks. We believe we are yet to feel the full cumulative impacts of prior rate hikes. Monetary policy works in long and variable lags, and while the headwinds of rising rates may be behind us, we should not discount the effect on the economy of a federal funds rate that is 525 basis points above where it was a couple of years ago. As such, we think a slowdown in growth is likely, but the extent thereof remains an open question. Nonetheless, it bodes well that the Fed is now in a stronger position to lower rates if the economy shows signs of weakness.

In addition to the more upbeat macroeconomic backdrop, we believe the strategy is well positioned for strong absolute and risk-adjusted returns in 2024. This is due to our distribution yield in the high single digits, our conservative duration position at the short end of the curve, and the potential for spreads to tighten further within our overweight allocation to securitised sectors.

Performance (%)

Returns	Cumulative				Annualised			
	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since inception (04/12/19)
A2 USD (Net)	-0.98	2.96	-0.20	6.65	-1.32	—	—	0.24
Index	-1.41	2.08	-1.68	3.33	-3.16	—	—	-1.09
Sector	-0.47	2.58	-0.16	4.69	-1.28	—	—	0.71

Calendar year	2023	2022	2021	2020	2019 from 04 Dec
A2 USD (Net)	8.35	-12.55	1.91	4.38	0.40
Index	5.53	-13.01	-1.54	7.51	-0.05
Sector	6.07	-9.38	-0.24	6.86	0.74

Performance is on a net of fees basis, with gross income reinvested. Source: at 29/02/24. © 2024 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Past performance does not predict future returns.** Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period. **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.** Source for target returns (where applicable) - Janus Henderson Investors.

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.

Investment objective

The Fund aims to provide a high income with the potential for some capital growth over the long term. Performance target: To outperform the Bloomberg US Aggregate Bond Index by 1.25% per annum, before the deduction of charges, over any 5 year period. For the fund's investment policy, refer to the Additional fund information on page 4. **Past performance does not predict future returns.**

Fund details

Inception date	04 December 2019
Total net assets	307.19m
Asset class	Fixed Income
Domicile	Ireland
Structure	Irish Investment Company
Base currency	USD
Index	Bloomberg US Aggregate Bond Index
Morningstar sector	USD Flexible Bond
SFDR category	Article 8

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.

Additional fund information

Tax assumptions and reliefs depend upon an investor's particular circumstances and may be subject to change. Please note the performance target is to be achieved over a specific annualised time period. Refer to the performance target wording within the objective. 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 and/or financial adviser if you have any queries. This is an Irish Investment Company regulated by the Central Bank of Ireland. A short-term trading fee may be applied upon exiting the fund as per the prospectus. Ongoing charge represents the ongoing costs to the fund, which includes the AMC and other charges for services such as keeping a register of investors, calculating the price of the fund's units or shares and keeping the fund's assets safe. These are the views of the author at the time of publication and may differ from the views of other individuals/teams at Janus Henderson Investors. Any securities, funds, sectors or indices mentioned within this article do not constitute or form part of any offer or solicitation to buy or sell them. The information in this commentary does not qualify as an investment recommendation. Investment into the fund will acquire units/shares of the fund itself and not the underlying assets owned by the fund. The ongoing charge is calculated using the PRIIP methodology. The PRIIP methodology differs to the UCITS ongoing charge methodology, as the PRIIP methodology captures additional recurring charges, including but not limited to: Interest paid on borrowing (e.g. bank interest); Any fees incurred in relation to stock-lending activity (i.e. the fee paid to the lending agent); Any costs associated with holding closed-ended vehicles. Cash balances and exposures are based on settled and unsettled trades as at the reporting date.

Investment policy

The Fund invests at least 70% of its assets in a multi-sector portfolio of US bonds of any quality, including high yield (non-investment grade) bonds and asset-backed and mortgage-backed securities, issued by governments, companies or any other type of issuer. The Fund may also hold other assets including bonds of other types from any issuer, cash and money market instruments. The Sub-Investment Adviser may use derivatives (complex financial instruments), including total return swaps, to reduce risk, to manage the Fund more efficiently, or to generate additional capital or income for the Fund. The Fund is actively managed with reference to the Bloomberg US Aggregate Bond Index, which is broadly representative of the bonds in which it may invest, as this forms the basis of the Fund's performance target. The Sub-Investment Adviser 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.

Investment strategy

The Sub-Investment Adviser seeks to identify future winners and losers to express their high-conviction views. A 'bottom-up' fundamentally driven investment process focused on companies around the world committed to transforming and improving their balance sheets, free cash flow generation, quality of management and security valuation drive security selection. A dynamic 'top down' (market and economic analysis) framework enables the Sub-Investment Adviser to make active sector allocation decisions based upon assessment of the stage of credit cycle, form views on market outlook, identify opportunities and take an appropriate amount of risk.

Fund specific risks

The Fund invests in Asset-Backed Securities (ABS) and other forms of securitised investments, which may be subject to greater credit / default, liquidity, interest rate and prepayment and extension risks, compared to other investments such as government or corporate issued bonds and this may negatively impact the realised return on investment in the securities. 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. 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. Some bonds (callable bonds) allow their issuers the right to repay capital early 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. 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.

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