

# GLOBAL INVESTMENT GRADE BOND FUND

## At a glance

### Performance\*

The Fund returned 8.06%, the Index returned 7.53% and the Sector returned 7.35%.

### Contributors/detractors

Outperformance was largely due to strong security selection and the fund's long interest rate duration position relative to the benchmark. Sector allocation marginally detracted from performance.

### Outlook

Declining inflation and a pivot from central banks indicates rate cuts in 2024, but we see some scope for increased volatility and our investment view remains overall cautious.

## Portfolio management



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## Investment environment

- Global investment grade credit enjoyed a remarkable rally over the latter two months of the period. Excess returns (versus equivalent government debt) were positive, with global investment grade corporate bond spreads tightening over the period.
- The quarter launched with a weak month for bond markets following the outbreak of conflict between Israel and Hamas and fears of wider escalation. Resilient US economic data also provoked fresh concerns about the interest rate outlook, although weaker eurozone data and the expectation that the European Central Bank (ECB) will be done with interest rates hikes led to outperformance from European government bonds. Investment grade credit recovered strongly in November, with government bond yields rallying due to signs that the US economy was cooling. Annual inflation in the US eased from 3.7% in September to 3.1% in November, while economic growth for the third quarter was revised down to an annualised rate of 4.9% from the previous reading of 5.2%. The rebound in fixed income markets continued in December, as positive macroeconomic data and the prospect of looser monetary policy in the US triggered fresh optimism among investors for an economic 'soft landing'. This led to investment grade spreads tightening, particularly following the US Federal

Reserve's (Fed) meeting where policy makers signalled rate cuts of 75 basis points (bps) in 2024.

- Over the quarter, the 10-year Treasury yield fell 69 bps to 3.88%, the German 10-year bund yield fell 82 bps to 2.01% and the UK 10-year gilt yield fell 90 bps to 3.54%. The Fed, the Bank of England (BoE) and the ECB all held rates steady across the quarter. Both the ECB and the BoE stressed that borrowing conditions would remain tight for as long as needed to contain inflation.
- All regions posted positive excess returns, with sterling investment grade credit outperforming, followed by US dollar equivalents and then euro equivalents. All sectors tightened over the quarter. Financials outperformed non-financials. Within financials, spreads tightened the most in financial services, real estate and banks, which all outperformed insurance. In the non-financials space, spreads tightened the most in consumer cyclicals and technology.

### Marketing communication

For US Financial Professionals servicing non-US persons.

Past performance does not predict future returns.

\*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.

## Portfolio review

The main positive contributor to the fund's outperformance was strong security selection and the long interest rate duration position relative to the benchmark, as we benefited from the strong government bond rally in the second two months of the quarter. The overweight position to credit beta relative to the benchmark was also additive as spreads tightened over the period in review.

At a sector level, the fund's underweight position in banking contributed positively to performance, along with an overweight position in consumer cyclicals and an underweight position in electrics. Meanwhile, short high yield risk hedges implemented through credit default swap indices dragged on performance, as did the overweight position in other industrials. Security selection within banking and consumer non-cyclicals was additive, along with insurance. Conversely, transportation, local authorities and energy detracted mildly.

At an issuer level, a mild overweight position in Tenet Healthcare, which reported strong third-quarter results and a solid annual earnings forecast, contributed positively to performance. The company recently announced a deal to sell three US hospitals. An overweight position to commercial real estate group CBRE Group performed well given the overall strong performance of real estate towards the end of the quarter, as did an overweight position in chemicals group Celanese. An off-benchmark position in Mattel, which had performed well in the previous quarter, went on to detract in the final quarter of the year, along with an off-benchmark position in US energy company Viper Energy.

Our current preference for financials over non-financials persists, and we continue to seek value in the cyclical segments of the market. Despite an improving macroeconomic outlook, our overall stance remains cautious.

## Manager outlook

The last two months have been an extraordinary period for fixed income, resulting in one of the best quarterly performances in over two decades. Investors have moved quickly to price in a 'soft landing' after positively surprising inflation falls and the change in tone from central bank officials. However, it is still unclear which path the economy is going to take in 2024. With central banks seemingly close to easing rates, investors will remain all-consumed on any central bank rhetoric and data releases that could trigger that first cut, so we expect volatility to remain elevated.

While we maintain our cautious stance, we see potential for investment grade credit in 2024 given the resilience of the US economy and eurozone inflation levels already nearing targets. Many large companies have termed-out

debt profiles and continue to have reasonably good interest cover ratios thanks to strong free cash flow. However, we continue to see genuine credit risks on the horizon and think the market has become more complacent about the longer-term outlook for credit, especially if we fall into recessionary territory. The cost of servicing debt has risen in the wake of higher yields and may remain elevated with potential central bank cautiousness in cutting rates too soon.

Liquidity withdrawal and rate hikes are still feeding through to money supply and bank lending standards. Stronger, larger companies can still access capital, but at a higher price, with each refinancing coming at a premium. Credit fundamentals are gradually moving lower at the aggregate level and interest coverage has been good, but that is changing as rates have moved higher. Issuance overall and particularly in European credit markets has remained low 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. As a result of these tougher conditions, with weaker issuers facing increasing financing risks, our focus on quality will remain.

We also see elevated macroeconomic risks for the global economy. These include the lagged impact of monetary policy tightening, uncertainty around the upcoming US presidential election and heightened geopolitical risk. There is also the worry that the ECB may have overtightened in its fight against inflation. In the US, we view the labour market as normalising, rather than a cyclical cause for concern. Yet, we still have no clarity on an equilibrium level for growth, inflation, employment and margins.

The resilience of investment grade credit has been surprising, and while we reduced the fund's small credit beta overweight position into December's rally, we do feel spreads have the potential to tighten a little more. We continue to favour the prospects of banking debt. Valuations remain attractive to us while the banking model benefits from a higher interest rate regime.

We believe rates will move a little lower. Hence, we are comfortable in maintaining the fund's marginal overweight duration position for now - although we have moderated this recently. But given the headwinds, and the extreme market rally of the last couple of months, we will continue to leverage the expertise of our credit research team and focus on security selection as opposed to making large macroeconomic calls. We think that a discriminating approach to security selection is essential when choosing mispriced securities in a market that has remained relatively strong against a backdrop of elevated uncertainty.

Performance (%)

Returns	Cumulative				Annualised		
	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
A2 USD (Net)	4.18	8.06	7.13	7.13	-3.79	1.97	1.04
Index	3.81	7.53	9.10	9.10	-2.40	2.42	2.09
Sector	3.72	7.35	7.67	7.67	-2.79	2.01	2.45
A2 USD (Gross)	—	—	—	—	—	3.38	2.74
Target	—	—	—	—	—	3.70	3.37

Calendar year	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A2 USD (Net)	7.13	-15.28	-1.86	11.20	11.32	-4.48	7.83	1.95	-6.02	1.87
Index	9.10	-14.11	-0.79	8.26	11.99	-3.57	9.09	4.27	-3.56	3.15
Sector	7.67	-13.86	-0.96	8.20	11.14	-1.78	6.42	5.38	-1.01	5.73

Performance is on a net of fees basis, with gross income reinvested. Source: at 31/12/23. © 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](http://www.janushenderson.com).

Investment 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 Bloomberg Global Aggregate Corporate Bond Hedged USD 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	29 October 2010
Total net assets	370.43m
Asset class	Fixed Income
Domicile	Ireland
Structure	Irish Investment Company
Base currency	USD
Index	Bloomberg Global Aggregate Corporate Bond Hedged USD Index
Morningstar sector	Global Corporate Bond - USD Hedged
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. 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 and/or financial adviser if you have any queries. From 1 September 2021, Tim Winstone also manages 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. 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. References made to individual securities do not constitute a recommendation to buy, sell or hold any security, investment strategy or market sector, and should not be assumed to be profitable. Janus Henderson Investors, its affiliated advisor, or its employees, may have a position in the securities mentioned.

### Investment policy

The Fund invests at least 80% of its assets in a global portfolio of investment grade (equivalent to BBB rated or higher) bonds, of issuers located anywhere in the world. Up to 20% may be invested in developing markets. The Fund may also hold other assets including other types of bonds (including convertible bonds), preference shares, 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 Bloomberg Global Aggregate Corporate Bond Hedged USD 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 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.

### Investment strategy

The investment manager has a forward-looking fundamental approach to credit research and seeks to create a portfolio of best ideas across all fixed income sectors to express their high-conviction views. A fundamental company research-driven investment process focused on investment-grade corporate bonds from 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 investment manager to assess the stage of credit cycle, identify opportunities and take an appropriate amount of risk.

### Fund specific risks

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. 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. 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.

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— INVESTORS —

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Source: Janus Henderson Investors, as at 31 December 2023, unless otherwise noted.

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