Janus Henderson INVESTORS

GLOBAL INVESTMENT GRADE BOND FUND

At a glance

Performance*
The Fund returned 1.38%, the Index returned 1.26% and the Sector returned 1.26%.

Contributors/detractors
Portfolio positioning in credit beta and duration were both positive contributors. The overweight position to the other utility sector was a detractor from performance.

Outlook
Given the binary outlook, we remain focused on selecting companies with what we see as strong fundamentals and attractive valuations.

Portfolio management


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Investment environment

- The global investment grade credit market strengthened in March, with a positive impact from both modestly lower government bond yields and slightly tighter spreads. Investors continued to scrutinise new economic data releases for any indications as to the timing and size of interest rate cuts from central banks.
- The data indicated continued resilience in the US economy, notwithstanding that there was a small increase in the unemployment rate, from 3.7% in January to 3.9% in February.
- Inflation data remained mixed. The US Federal Reserve (Fed)'s preferred personal consumption expenditures (PCE) measure rose slightly to 2.5% year-on-year in February, from 2.4% in January. The 'core' PCE measure, which excludes food and fuel prices, declined from 2.9% to 2.8% over the same period.
- This uncertain picture was reinforced by comments from Fed Chair Jerome Powell. He reiterated his confidence that inflation was on the path towards the 2.0% target. However, he cautioned that the journey might be “sometimes bumpy”. A slim majority of the nine Federal Open Market Committee members expects three cuts this year.
- In Europe, the annual inflation figures for March in both France and Italy came in below expectations. Senior officials at the European Central Bank (ECB) suggested rates could be cut from June. Investor optimism was also bolstered by the Swiss National Bank's decision to cut interest rates by 25 basis points (bps). By contrast, the Bank of Japan implemented its first rate increase since 2007, from -0.1% to 0.0%.
- Given the marginally more favourable background, the yield on 10-year government bonds fell in the US by 5 bps to 4.20%, in Germany by 11 bps to 2.30% and in the UK by 19 bps to 3.93%. The 10-year bond yield in Japan was almost unchanged.
- The positive tone was reflected in most credit markets. In the US, both investment grade and high yield bonds performed strongly. European investment grade bonds yielded comparable returns, though European high yield bonds did not fare as well, suffering from widening spreads. Notably, Intrum, Altice France and Ardagh witnessed a considerable decrease in the value of their bonds.
- Investment grade bond issuance remained strong, particularly in the US, with many companies seeking to

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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.

address their financing requirements ahead of the presidential election later in the year.

- From a sector perspective, financial issues outperformed non-financials on a spread basis. Within financials, subordinated issues generally outperformed senior debt. Within financials, real estate outperformed, benefiting from interest rate cuts expectations. Within non-financials it was retail and media that saw spreads tightening the most.

Portfolio review

The fund's small overweight position to credit beta added to relative performance, as spreads generally tightened during the month. Duration was also a positive factor, as the fund was positioned in the right part of the yield curve and geographies. For instance, our overall preference for duration was partly expressed through European exposure. This was beneficial as inflation and growth in the region continued to undershoot the US. Both sector allocation and stock selection also contributed positively to relative performance. The fund's short European high yield bond position expressed through a credit default swap (CDS) index helped performance, as European high yield bonds weakened following concerns over a debt restructuring at SFR/Altice.

The largest positive sector contributions to relative performance came from the underweight position in electrical companies and the overweight position in finance companies. These positives helped to offset the negative contribution from the overweight position in the other utility sector. Security selection was strongest in consumer non-cyclical, basic industry, banks and capital goods. The weakest sectors for security selection included other utility, technology and REITs.

At the issuer level, overweight positions in Western Digital, the digital storage solutions business, and Macquarie AirFinance, the aviation lessor, contributed positively to performance.

Having no position in British Airways also helped relative returns. Individual detractors included Thames Water and Reckitt Benckiser. The underperformance from Thames Water was driven by concerns over a potential debt restructuring. However, the 2044 maturity bond, which we own, outperformed the other Thames Water bonds. This limited the impact on relative returns. Reckitt Benckiser was hit by an adverse US court ruling and the award of damages against the company. The company has indicated it will appeal. Reckitt Benckiser is highly cash generative, and the financial risks are likely to be borne by equity and not bond holders.

The overall shape of the portfolio remained substantially unchanged. We did slightly increase the fund's average duration. We also maintained the overweight position to credit risk. During the month, we took tactical advantage of price volatility to increase this bias, but later in the month we trimmed the position back to a more moderate overweight stance. Geographically, we continued to tilt away from the US and towards what we see as better value opportunities in Europe. New issuance has now pulled back ahead of the earnings season, but once this picks up we may look to add further credit risk to the portfolio should the right valuation opportunities present themselves.

Manager outlook

Macroeconomic data in March has showed that the risk of an economic 'hard landing' (recession) in the US has diminished. However, inflation is proving more stubborn, particularly in services and wages. In Europe, it seems like the weakest period for growth is behind us, with first-quarter GDP growth in the eurozone and the UK likely to be modestly positive. Meanwhile, eurozone inflation is now close to the ECB's target level.

That said, we still expect to see volatility in the coming months as expectations change around the timing and magnitude of interest rate cuts. Market dynamics remain relatively positive, and we believe there will be a tailwind of investment into risk assets this year, given the higher interest rate environment and the reinvestment risk investors will face once the interest rate cuts that have been priced in start to materialise.

We remain cautiously optimistic about the outlook for investment grade bond markets and believe credit spreads have the potential to tighten a little more, given the current benign macroeconomic backdrop. Having said that, we are wary of overly optimistic valuations, particularly as the macroeconomic picture is far from clear.

Geopolitical risks remain elevated, with conflicts such as Russia's invasion of Ukraine looking more likely to escalate than deescalate in the near future. The political risk fuelled by general elections is high on our watch list as nearly 60% of the world's democratic population - including the US and the UK - goes to the polls over the year.

Technicals remain solid for the asset class, with still-elevated supply being met with positive demand. This should turn into a tailwind in the second quarter as supply is expected to drop sharply as companies start to enter earnings-related blackout periods.

However, as we navigate expectations around interest rate cuts and an approaching debt maturity wall, we remain cautious of the companies with increasing leverage and lower interest rate coverage ratios but positive on companies that continue to have reasonably good interest cover ratios and strong free cash flow measures.

We remain focused on selecting high-quality securities and have moderated the fund's subordinated banking position. We also maintain a slightly longer duration position in Europe and the UK, and stayed neutral in the US markets. We continue to position the portfolio to benefit from a positive credit backdrop, but remain focused on relative and idiosyncratic value while also managing risks in order to deliver attractive risk-adjusted returns.

Performance (%)

Returns	Cumulative 1 Month	3 Month	YTD	1 Year	Annualised 3 Year	5 Year	10 Year
A2 USD (Net)	1.38	0.24	0.24	4.87	-2.51	1.26	0.79
Index	1.26	0.10	0.10	5.89	-1.30	1.61	1.84
Sector	1.26	0.19	0.19	5.11	-1.81	1.23	2.24
A2 USD (Gross)	—	—	—	—	—	2.61	2.47
Target	—	—	—	—	—	2.88	3.11

Calendar year	YTD at Q1 2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A2 USD (Net)	0.24	7.13	-15.28	-1.86	11.20	11.32	-4.48	7.83	1.95	-6.02	1.87
Index	0.10	9.10	-14.11	-0.79	8.26	11.99	-3.57	9.09	4.27	-3.56	3.15
Sector	0.19	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 31/03/24. © 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 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	209.28m
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. 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. 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 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 Sub-Investment Adviser 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 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 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 Sub-Investment Adviser 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.

FOR MORE INFORMATION PLEASE VISIT **JANUSHENDERSON.COM**

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