Janus Henderson INVESTORS

GLOBAL INVESTMENT GRADE BOND FUND

At a glance

Performance*
The Fund returned -1.04%, the Index returned -1.10% and the Sector returned -1.05%.

Contributors/detractors
Security selection was the main positive contributor to performance, while the overweight position to duration was a detractor.

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

Portfolio management

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Investment environment

- The global investment grade credit market weakened in February as the negative impact from rising government bond yields offset the benefit from slightly tighter spreads. There were no significant monetary policy changes at the major Western central banks, although new economic data points and central bank communications did affect investor sentiment.
- As in the previous month, strong employment figures appeared to indicate continued resilience in the US economy.
- Inflation data was mixed. The Federal Reserve's (Fed) preferred personal consumption expenditures (PCE) measure fell, as expected, from 2.6% in December to 2.4% in January. However, the month-on-month rise in the 'core' PCE measure was larger than anticipated.
- Minutes from the Fed's January policy meeting reinforced the view that members, who were described as “highly attentive” to inflation risks, would be cautious about cutting interest rates too early. The European Central Bank (ECB) also continued to emphasise a cautious approach to changes in monetary policy.
- This pattern was sufficient for investors to further revise downwards the probability of early interest rate cuts. As a result, the yield on 10-year government bonds rose in the US by 34 basis points (bps) to 4.25%, in Germany by 25 bps to 2.41% and in the UK by 33 bps to 4.12%. The main exceptions were China and Japan where yields edged marginally lower.
- The positive economic environment in the US was sufficient to cause credit spreads to tighten in the US, European and UK investment grade markets. This came despite continued evidence that growth in both Europe and the UK was flat-lining.
- In credit, high yield bonds outperformed investment grade bonds in both Europe and the US, reflecting both higher carry and a sharper tightening in spread levels. After a strong January, investment grade bond issuance remained at elevated levels in both the US and Europe.
- From a sector perspective, financial issues outperformed non-financials on a spread basis. Within financials, there was relatively little dispersion of returns other than the general outperformance of subordinated debt. European real estate continued to see spreads tighten more than for other sectors. In non-financials, spreads generally tightened slightly more in cyclical than in defensive areas, although the difference was small, and the exact pattern varied between the main regions.

Portfolio review

Security selection was the key driver of performance

*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.

during the month. The fund's overweight position to duration detracted from performance given the outperformance of short-dated issues. The fund's short high yield position expressed through credit default (CDS) swap indices also hurt performance.

Security selection was strongest in the technology, energy and consumer non-cyclical sectors. At the sector level, the underweight stance on defensive areas such as consumer non-cyclical and communications, as well as the overweight stance on REITs and the brokerage asset manager sector, contributed positively to performance. These positives helped offset the detraction from overweight positions in technology and capital goods as well as from weak security selection within the REIT and brokerage asset manager sectors.

At the issuer level, overweight positions in Mattel, the toy and media group, Trimble, the technology group, Capital One Financial, and (as in the previous month) Thames Water, all contributed positively to performance. The main individual detractors included US broadcaster CBS, Charter Communications and Foundry JV, Brookfield Asset Management's joint venture with Intel.

The overall shape of the portfolio remained broadly unchanged. We retained the overweight position on duration although we did slightly increase the exposure to credit risk. We did this by adding to the existing position in BBB-rated issues, where the fund has an overweight position (by contrast to our underweight stance on A-rated issues). We trimmed the weighting to banks, given their recent strong performance, by taking some profits, particularly on the US holdings. As in the previous month, we added further to the fund's real estate positions via logistics and data-centre property companies. We participated in a number of new deals, where we found the valuations compelling, with the significant levels of new supply providing idiosyncratic investment opportunities.

Manager outlook

Global disinflation, resilient US growth, and expectations of lower rates have coincided with a diminished risk of a shock to corporate earnings and a slightly better outlook for access to capital. Positives for credit include attractive all-in yields, increasing diversification benefits vis-à-vis equities as inflation falls, and the prospect of cash in money market funds shifting into bonds. However, expectations around interest rate cuts were pushed back further in February, once again highlighting the rates volatility we can expect this year and the possibility of spill-over into spread markets.

Supply remained elevated in February and was again met with positive demand, suggesting technicals remain solid for the asset class. However, as we navigate expectations around interest rate cuts and an approaching maturity wall, we remain cautious on 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.

The resilience of investment grade credit has been surprising, and we do feel spreads have the potential to tighten a little more. We remain positive on banking debt as elevated interest rates should continue to support profitability. However, we are becoming more cautious on valuations and as a result we trimmed the fund's overweight position via names that we felt were trading at high valuations.

In this macroeconomic and credit environment, where trajectory is uncertain and tail risks significant, we continue to draw on the expertise of our credit research team to select attractively priced, high-quality issues while also managing upside potential and downside risks in the portfolio. We feel a discriminating approach to security selection, combined with nimbleness in adding or removing risk from the portfolio, will be key 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)	-1.04	3.01	-1.12	5.29	-3.36	1.33	0.66
Index	-1.10	2.62	-1.15	6.80	-2.04	1.69	1.72
Sector	-1.05	2.62	-1.06	5.62	-2.46	1.31	2.12
A2 USD (Gross)	—	—	—	—	—	2.70	2.35
Target	—	—	—	—	—	2.96	2.99

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 29/02/24. 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	207.33m
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. 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.

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Source: Janus Henderson Investors, as at 29 February 2024, unless otherwise noted.

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