Janus Henderson INVESTORS

FIXED INTEREST MONTHLY INCOME FUND

At a glance

Performance*
The Fund returned -0.34%, the Peer Group returned 0.98%

Contributors/detractors
From a sector perspective, financials were the biggest outperformers during the period. The fund's duration position (sensitivity to interest rates) was the largest detractor.

Outlook
We have increased the risk position of the portfolio by adding to holdings in high yield bonds, where we are focused on buying what we see as resilient business models.

Portfolio management

John Pattullo

Jenna Barnard, CFA

Nicholas Ware

Investment environment

- The first quarter was a strong period for riskier assets as investors embraced the narrative of an economic 'soft landing' (versus recession) and the notion of 'immaculate disinflation' (the idea that inflation, primarily driven by supply-side shocks, would subside without a corresponding rise in unemployment).
- Resilient economic data fuelled investors' optimism during the quarter. The US economy grew more than expected in the fourth quarter of 2023, while the composite Purchasing Managers' Index (PMI) remained firmly in expansionary territory, boosting sentiment.
- Macroeconomic indicators from around the world also painted an encouraging picture, further supporting the prospect of an economic 'soft landing'.
- However, bond yields drifted modestly higher (and prices lower) as they entered the year discounting nearly six US interest rate cuts and ended the quarter discounting only three. This was due to the market initially expecting a linear fall in inflation, growth and employment, but in the words of US Federal Reserve (Fed) Chairman Powell the path has been "bumpy". US economic growth has been stronger than expected, but the employment market is "more balanced".
- Optimists point to a fading fiscal boost, productivity gains from artificial intelligence (AI) and favourable immigration dynamics easing worker shortages and wage inflation. Pessimists focus on the long lags of monetary policy and the inverted yield curve, which has historically signalled recession.
- Fed Chairman Powell acknowledged the seasonal effects on inflation but noted the February print was higher than expected, although "not terribly high".
- Crucial factors like oil prices (Brent Crude up 13.6%) and implied inflation from inflation-linked markets also rose. Cryptocurrencies, the US dollar and gold performed exceptionally well, while sovereign bonds and the Japanese yen drifted lower as Japan ended its negative interest rate policy.
- The global interest rate cutting cycle remains on track, possibly delayed in the US but sooner in Europe. Inflation continues to rise less rapidly and is experiencing dramatic falls in the UK, Canada, Switzerland and elsewhere.

Portfolio review

In credit (corporate bonds), high yield bonds outperformed their investment grade counterparts as they benefited from lower sensitivity to interest rate movements and more accommodative financial conditions. European investment grade bond spreads tightened 23 basis points (bps) to

*For benchmark/usage and peer group, 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.

deliver 0.4% while US investment grade bond spreads tightened by 11 bps to deliver -0.8%. European high yield bond spreads tightened by 38 bps to deliver 1.6% and US high yield bond spreads tightened by 27 bps to deliver 1.3%.

We saw a strong level of primary activity in both European and US investment grade and high yield bond markets. This led to a busy period where we switched from investment grade bonds into high yield bonds.

We saw a total of $20.6 billion of defaults or exchanges in the US, which continued the downshift following elevated activity in the first half of 2023. European defaults ended the quarter at 2.64% and the US high yield bond default rate ran at 2.59%. We expect defaults to rise through the year given the tighter financial conditions and headwinds to corporate fundamentals.

We made some relative value switches away from US duration (sensitivity to interest rates) into Europe (+0.3), the UK (+0.4), Australia (+0.04) and Canada (+0.3) among other areas. Given similar pricing of future cuts but less growth and inflation risk outside the US market, this seems a good risk-adjusted trade in our view.

We also added credit (corporate bond) risk to the portfolio during the quarter as we consider the credit environment to be supportive. However, we maintain a selective approach, favouring quality businesses trading at what we see as attractive valuations with proven management teams and robust free cash flow generation.

Manager outlook

We remain fully invested in "reason to exist" large-cap credit which we think can withstand softer economic growth. The focus on providing a relatively consistent and attractive income stream to investors means that the investments are naturally skewed to lower-rated and riskier corporate bonds.

Performance (%)

Returns	Cumulative 1 Month	3 Month	YTD	1 Year	Annualised 3 Year	5 Year	10 Year	Since inception (30/04/79)
I Inc (Net)	1.75	-0.34	-0.34	4.34	-3.26	0.70	2.74	6.56
Peer Group	1.57	0.97	0.97	7.27	-0.60	1.67	2.51	5.82

12 month rolling	Mar 2023-Mar 2024	Mar 2022-Mar 2023	Mar 2021-Mar 2022	Mar 2020-Mar 2021	Mar 2019-Mar 2020
I Inc (Net)	4.34	-10.92	-2.61	15.98	-1.36
Peer Group	7.27	-6.20	-2.39	13.04	-2.13

Performance is on a net of fees basis, with gross income reinvested. Source: at 31/03/24. **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. This is a representative share class for the fund, other share classes are available and may be more suitable for your investment needs.

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. Performance target: To outperform the IA Sterling Strategic Bond sector average, after 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	28 March 1979
Total net assets	1.12bn
Asset class	Fixed Income
Domicile	United Kingdom
Structure	Unit Trust
Base currency	GBP
Peer group	IA Sterling Strategic Bond sector

For benchmark/usage description, refer to Additional fund information on page 4.

Additional fund information

Tax assumptions and reliefs depend upon an investor's particular circumstances and may be subject to change. Availability of share classes shown may be limited by law in certain jurisdictions. Performance records are detailed on the specific KIID, fees and charges may vary and further information can be found in the fund's prospectus and KIID which must be reviewed before investing. Please consult your local sales representative if you have any further queries. From 18 March 2021, the Janus Henderson Preference & Bond Fund merged into the Janus Henderson Fixed Interest Monthly Income Fund. 100% of the Annual Management Charge is taken from capital. 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. Cash balances and exposures are based on settled and unsettled trades as at the reporting date.
The Investment Association (IA) groups funds with similar geographic and/or investment remit into sectors. The Fund's ranking within the sector (as calculated by a number of data providers) forms the basis of the Fund's performance target and can be a useful performance comparison against other funds with similar aims.

Investment policy

The Fund invests at least 80% of its assets in a global portfolio of bonds of any quality, including high yield (non-investment grade) bonds, issued by governments, companies or any other type of issuer. Where investments are made in assets in currencies other than Sterling, the Fund will seek to hedge at least 80% of those assets back to Sterling to largely remove the risk of currency exchange rate movements. The Fund may also hold other assets including preference shares, cash and money market instruments. In certain market conditions, the Fund may invest more than 35% of its assets in government bonds issued by any one body. The 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 IA Sterling Strategic Bond sector average, which is based on a peer group of broadly similar funds, as this forms the basis of the Fund's performance target. The Investment Adviser has complete freedom to choose individual investments for the Fund and to vary allocations between different types of bonds.

Investment strategy

The Investment Adviser aims to build a diverse portfolio of high yielding fixed interest securities to provide a reliable monthly income over the long term with an acceptable level of risk. With no formal index benchmark to follow, but with a strong focus on income generation, the portfolio managers actively respond to economic and market conditions and alter the portfolio to benefit from the best available sources of income in the developed fixed income markets through careful macroeconomic research and company analysis.

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. CoCos 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/units 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. 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.

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