COMMENTARY

Janus Henderson Horizon Emerging Market Corporate Bond Fund

October 2022

For qualified investors only - Marketing communication
Past performance does not predict future returns

Fund Managers Names

Herve Biancotto, Ales Koutny, CFA

Investment Environment

The JP Morgan Corporate Emerging Market Bond Index (CEMBI) saw its eighth month of negative total returns this year as it was down 2.1%. The index spread widened 42 basis points (bps) while US Treasury yields continued to surge with the US 10-year yield increasing 21 bps to 4.05%. High yield and investment grade bonds saw similar performance, down 2.0% and -2.1% respectively, masking actual dispersion across the region. Asia (down 4.0%) underperformed all other regions.

The Chinese Communist Party congress reconducted Xi Jinping as leader of the nation for the third time, backed by a partially renewed politburo composed of his supporters. Assumed headwinds for private companies in China seem likely to persist in our view. Consequently, the Chinese corporate bond sub-index fell 5.4%. The US dollar appreciated another 1.5% (nominal, trade weighted) and put pressure on energy importing countries such as the Philippines, which saw inflation soar (up 7.7% for September from 6.9%). Philippines corporate bonds underperformed the region, losing 8.0% due to the unusual absence of local buyers. On the other hand, Latin American companies proved resilient, with the region down just 0.5%. Again, the sub-index performance masks regional disparities as Brazil corporate bonds rallied (up 0.7%) after the first round in general elections put Lula and Bolsonaro much closer than polls had predicted. Conversely, Mexican corporates underperformed the region (down 1.8%).

Within this context, there was not much change in terms of primary activity for emerging market bonds, which was around 25% of the previous years' issuance volume. Outflows from the asset class reached $86 billion year-to-date, due to an extra $13.1 billion (of which $6.5 billion was in hard currency) leaving the asset class in October.

Portfolio Review

The fund underperformed its benchmark over the month.

The fund's exposure to both the Philippines and the issuer Cifi explain this underperformance. The fund had an overweight position to Asia ex-China and Philippines corporate bonds in particular. On top of this Cifi, the Chinese real estate company that benefited from a state-guaranteed scheme to raise new funding onshore, missed a coupon payment on one of its Hong-Kong dollar bonds. Later in the month, the company suspended repayments on offshore bonds, withdrawing from negotiations with bond holders. The rest of the portfolio was and remains defensively positioned, with a short duration bias as the US dollar and US yields kept rising. This helped performance.

Manager Outlook

Exceptional events affecting global supply chains have pushed the world's imbalances to extreme levels. China and energy exporting countries are now fully responsible for global excess savings, funding all other countries' external deficits. Europe, which has historically been a creditor vis-à-vis the rest of the world, is now a debtor due to higher energy imports. Meanwhile, and contrary to what the fashionable topic of reshoring suggests, China's dominance in the world's goods trade surplus has increased in value terms. While most commenters pin China's woes on abandonment of free market policies by Xi Jinping's administration, it seems that they actually result from years of misallocation of capital into non-productive public sector assets. Such structural imbalances typically depress domestic income and accelerate the accumulation of debt. Domestic consumption, as proxied by retail sales and imports, is still extremely subdued, even if the exceptionally depressed levels are a consequence of the Zero-Covid policy and might see a short term reversal. A slowing in global activity, as predicted by leading indicators, will take a toll on the main engine of Chinese growth so far this year. Across other emerging market countries, several central banks mentioned onshore rates may be near their terminal levels; as the US Federal Reserve (Fed) has actually revised its terminal rate higher, the macro theme of this year around the tightening of financing conditions for emerging market countries seems likely to remain intact. The fund remains defensive, with a high cash balance, lower beta than the index and a short duration bias.

Source: Janus Henderson Investors, as at 31 October 2022

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Fund information (Investment policy is on the next page)

Index	JP Morgan Corporate Emerging Market Bond Index (CEMBI) Broad Diversified
Morningstar sector	Europe OE Global Emerging Markets Corporate Bond
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 JP Morgan Corporate Emerging Market Bond Index (CEMBI) Broad Diversified by 1.5% per annum, before the deduction of charges, over any 5 year period.

Performance in (USD)

Performance %	A2 (Net)	Index	Sector	A2 (Gross)	Target (Gross)
1 month	-2.6	-2.1	-2.1	-	-
YTD	-19.3	-17.9	-20.5	-	-
1 year	-20.2	-18.1	-21.0	-	-
3 years (annualised)	-5.1	-3.5	-5.1	-	-
5 years (annualised)	-2.1	-0.2	-1.9	-0.8	1.3
Since inception 05 Nov 2014 (annualised)	0.9	1.9	0.3	2.2	3.4

Source: at 31 Oct 2022. © 2022 Morningstar. All rights reserved, performance is with gross income reinvested. Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period.

Calendar year returns %	A2 (Net)	Index	Sector
2022 to 30 Sep 2022	-17.2	-16.2	-18.7
2021	-3.3	0.9	-1.4
2020	7.7	7.1	7.2
2019	11.1	13.1	12.1
2018	-3.9	-1.6	-4.1
2017	8.3	8.0	9.8
2016	7.2	9.7	9.7
2015	3.7	1.3	-2.0
2014 from 05 Nov 2014	-1.0	-2.0	-3.9
2013	-	-	-
2012	-	-	-

Source: at 30 Sep 2022. © 2022 Morningstar. All rights reserved, performance is with gross income reinvested. Discrete performance data may change due to final dividend information being received after quarter end.

Investment into the fund will acquire units/shares of the fund itself and not the underlying assets owned by 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.

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 http://www.janushenderson.com.

Source for target returns (where applicable) – Janus Henderson. 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 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 15 April 2022 Jennifer James no longer manages this fund. Ales Koutny now co-manages this fund. From 18 March 2020 the Fund changed its investment policy. Past performance shown before 18 March 2020 was achieved under circumstances that no longer apply.

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Past performance does not predict future returns. 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.

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What are the risks specific to this fund?

- 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. High yielding (non-investment grade) bonds are more speculative and more sensitive to adverse changes in market conditions.
- When the Fund, or a hedged share/unit class, seeks to mitigate exchange rate movements of a currency relative to the base currency, the hedging strategy itself may create a positive or negative impact to the value of the Fund due to differences in short-term interest rates between the currencies.
- The Fund may invest in contingent convertible bonds (CoCos), which 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 of the issuer or to be partly or wholly written off.
- 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.
- The Fund may invest in onshore bonds via Bond Connect. This may introduce additional risks including operational, regulatory, liquidity and settlement risks.
- 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. This risk is generally greater the longer the maturity of a bond investment.
- Emerging markets expose the Fund to higher volatility and greater risk of loss than developed markets; they are susceptible to adverse political and economic events, and may be less well regulated with less robust custody and settlement procedures.
- The Fund may use derivatives towards the aim of achieving its investment objective. This can result in 'leverage', which can magnify an investment outcome and gains or losses to the Fund may 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'), 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.
- 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. These transaction costs are in addition to the Fund's Ongoing Charges.

General risks

- Past performance does not predict future returns.
- 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.
- Tax assumptions and reliefs depend upon an investor's particular circumstances and may be subject to change.

Investment policy

The Fund invests at least 70% of its assets in bonds of any quality, including high yield (non-investment grade) bonds in emerging markets. The Fund may invest up to 20% of its net assets in contingent convertible bonds (CoCos); asset-backed and mortgage-backed securities; distressed debt; and/or China onshore bonds traded through Bond Connect.

Where investments are made in assets in currencies other than the base currency of the Fund, the Fund will seek to hedge those assets back to the base currency to remove the risk of currency exchange rate movements.

The Fund may also invest in other assets including bonds of other types (including perpetual bonds) 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 JP Morgan Corporate Emerging Market Bond Index (CEMBI) Broad Diversified, 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.

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For further information on the Luxembourg-domiciled Janus Henderson fund range please contact your local sales office or visit our website: www.janushenderson.com.

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