COMMENTARY

Janus Henderson High Yield Fund

August 2023

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

Fund Managers Names

Tom Ross, CFA, Brent Olson, Seth Meyer, CFA

Investment environment

The US high yield bond market posted a positive return in August, with the Bloomberg US Corporate High Yield Bond Index rising 0.3%. High yield outperformed investment grade corporate bonds and Treasuries.

The market continued to digest the potential for further rate hikes as economic data began to show some tentative signs of slowing. The ISM Manufacturing reading of 46.4 was lower than expectations, while the Bureau of Labor Statistics revised non-farm payroll jobs growth downwards in June and July by 80,000 and 30,000 respectively. July's annualised inflation of 3.2% was slightly lower than the survey of 3.3%. At Jackson Hole, Chairman Powell reiterated that while further rate increases would be data driven, the Federal Reserve (Fed) retains an upward bias. The yield on the 5-year US Treasury ended at 4.24% relative to 4.17% at the prior month end.

High yield credit spreads widened 5 basis points (bps) to 3.72%, as investors began to factor in the effect of potentially higher sustained interest rates.

Portfolio review

The fund (class A2 US dollar shares) returned -0.4%, while the Bloomberg US Corporate High Yield Bond Index returned 0.3%.

Security selection within high yield corporate bonds, coupled with a small allocation to common stock, were the main positive contributors for the period. Yield curve positioning detracted.

On an industry basis, health care, gaming and retail detracted, while transportation services and health care REITs contributed positively. On an individual issuer basis, health care names Lantheus Holdings and Fortrea Holdings detracted, while Heartland Dental and Air Transport Services Group contributed.

Manager outlook

The US economy continues to show resilience in the face of higher interest rates. As the Fed rate hiking cycle marches deeper into its second year, the recession many predicted is yet to materialise. That said, we think investors should exercise caution as an economic slowdown remains a distinct possibility. Monetary policy works in long and variable lags and, to a large extent, we are yet to feel the full impact of prior rate hikes. Additionally, recent stress in the banking sector is resulting in tighter lending conditions, which is likely to be an additional headwind.

On the inflation front, we have seen some promising signs of cooling prices. Still, we think the move from the present level of around 4% to the Fed's target of 2% might end up being slower and bumpier than markets are expecting. In our view, it seems unlikely that inflation would come back down to 2% without an economic slowdown. So, while the probability thereof has increased, we still think the chance of a soft landing remains low.

As the economic environment becomes more challenging, we expect the divergence of clear winners and losers. Therefore, we view a research-driven approach as more important than ever. While we do anticipate some spread widening if economic conditions continue to deteriorate, high yield bond spread levels are supported by several mitigating factors including the somewhat lower expected default rate (3%-4%) relative to prior periods of credit stress, the higher quality of the high yield index versus history (BB-rated issuers now make up almost 50% of the high yield index), and the limited new issuance calendar.

The high yield bond index now offers yields around 8.5% - some of the highest we have seen since the Global Financial Crisis. While the outlook is uncertain and we continue to exercise caution, we believe high yield offers an attractive income opportunity for long-term investors prepared to weather any near-term volatility.

Source: Janus Henderson Investors, as at 31 August 2023

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Fund information (Investment policy is on the next page)

Index	Bloomberg U.S. Corporate High Yield Bond Index
Morningstar sector	Europe OE USD High Yield Bond
Objective	The Fund aims to provide a high income with the potential for some capital growth over the long term.
Performance target	To outperform the Bloomberg U.S. Corporate High Yield Bond Index by 1.25% 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	-0.4	0.3	-0.1	-	-
YTD	5.7	7.1	5.6	-	-
1 year	3.4	7.2	5.5	-	-
3 years (annualised)	-0.8	1.8	0.8	-	-
5 years (annualised)	1.1	3.3	2.0	3.0	4.6
10 years (annualised)	2.3	4.5	2.7	4.3	5.8

Source: at 31 Aug 2023. © 2023 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
2023 to 30 Jun 2023	4.7	5.4	4.2
2022	-16.2	-11.2	-11.1
2021	4.4	5.3	4.0
2020	5.1	7.1	5.0
2019	13.6	14.3	12.5
2018	-4.1	-2.1	-3.0
2017	4.9	7.5	6.6
2016	11.6	17.1	12.5
2015	-2.7	-4.5	-6.0
2014	-0.6	2.5	-0.5
2013	6.2	7.4	6.4

Source: at 30 Jun 2023. © 2023 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. 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 if you have any further queries.

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?

- 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.
- In addition to income, this share class may distribute realised and unrealised capital gains and original capital invested. Fees, charges and expenses are also deducted from capital. Both factors may result in capital erosion and reduced potential for capital growth. Investors should also note that distributions of this nature may be treated (and taxable) as income depending on local tax legislation.
- 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.
- 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.
- 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.
- 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 80% of its assets in US high yield (non-investment grade, equivalent to BB+ rated or lower) corporate bonds, issued by companies or any other type of issuer.

The Fund may also hold other assets including bonds of other types from any issuer, cash and money market instruments.

The investment manager may use derivatives (complex financial instruments) to reduce risk, to manage the Fund more efficiently, or to generate additional capital or income for the Fund.

The Fund is actively managed with reference to the Bloomberg U.S. Corporate High Yield Bond 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.

Janus Henderson High Yield Fund

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

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Important information

ESG integration is the practice of incorporating material environmental, social and governance (ESG) information or insights in a non-binding manner alongside traditional measures into the investment decision process to improve long term financial outcomes of portfolios. This product does not pursue a sustainable investment strategy or have a sustainable investment objective or otherwise take ESG factors into account in a binding manner. ESG related research is one of many factors considered within the investment process and in this material we seek to show why it is financially relevant.

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