

Janus Henderson Horizon Emerging Markets Debt Hard Currency Fund

Q2 2023

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

Fund Managers Names

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Investment environment

Government bond yields rose across developed markets over the quarter. 10-year yields on US Treasuries rose 37 basis points (bps) to 3.84%, while yields on 10-year German bunds rose 10 bps to 2.39%. The European Central Bank (ECB) raised rates by 50 bps overall - 25 bps in May and 25 bps in June - despite the latest readings showing eurozone inflation cooling. Meanwhile, the US Federal Reserve (Fed) opted to leave rates unchanged in June after having hiked by 25 bps in May. The consensus is that further hikes are inevitable. Emerging market sovereign debt returned 2.2% in US dollar terms, which can be divided into an underlying US Treasury return of -1.7% and a spread return of 4.0%. At the index level, sovereign spreads moved tighter by 52 bps. The credit spreads of investment grade countries in aggregate tightened by 21 bps, while high yield sovereign spreads tightened by 59 bps. By region, spread returns were positive across the board, led by Africa, while the Middle East was the laggard (albeit still positive). The distressed portion of the universe rallied strongly. On a country basis, the top performing sovereign bonds were Pakistan (up 42.0%), Ukraine (up 35.4%), Zambia (up 28.1%) and El Salvador (27.2%), while the weakest performers were Egypt (-2.5%), Guatemala (-0.8%), Poland (-0.6%) and Kuwait (-0.4%). Only one country (Egypt) posted a negative spread return over the quarter.

Portfolio review

The fund marginally underperformed the benchmark over the quarter.

While overall credit spreads tightened more at the benchmark level, this did not have a material impact on relative performance, as our credit spread risk was broadly in line with benchmark, reflecting our more cautious top-down view. Country allocation was a detractor from performance over the quarter, while security selection was a small positive contributor. Further, a small overweight position in terms of interest rate duration (i.e. exposure to the underlying US Treasury curve) detracted from relative performance.

In terms of country allocation, the fund benefitted from overweight positions in Mongolia, Macedonia, Uzbekistan and Bahamas, and an underweight allocation to Ecuador, Egypt and South Africa. However, the overweight position to Benin and Colombia detracted, as did the underweight allocation to Pakistan, Ukraine, Zambia and Nigeria, which all performed strongly over the quarter.

In terms of security selection, we benefited from our bond picking in Chile, Peru, Jordan and Uzbekistan, while security selection in Argentina, Egypt and Pakistan detracted from relative performance.

Manager outlook

In the US, leading indicators still point to a significant recession risk, although hard data, including the labour market, has been more resilient. On the positive side, significant progress has been seen on inflation, with headline Consumer Price Index (CPI) inflation falling to 3.0% year-on-year in June (from 6.5% year-on-year at start of 2023). This should be supportive for emerging markets, paving the way for less policy-related uncertainty as both US rates and the dollar are past their peak. In our view, market pricing is too optimistic on US growth scenarios and the adjustment to a recession will dampen risk appetite as the Fed is unlikely to step in as quickly to pivot monetary policy as it has done in recent slowdowns. We believe the late-cycle environment will likely keep volatility elevated and data dependency high. However, as inflation comes down, Fed policy ammunition grows and consequently the risk of a harder landing declines. Hence, the negative scenario of a hard landing is time sensitive.

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In China, sequential growth has likely already peaked. To date, the recovery is mainly service-driven and state-led and the global slowdown is dampening exports. We expect the Chinese authorities to remain path-dependent and adopt more targeted fiscal policies (such as towards the property sector) to support growth, and that the positive spill-over effects of China's recovery on other emerging market countries will be more muted than in the past. Our base case is that the emerging market/developed market economic growth differential is shifting significantly higher given the widening disparity in forecasted global growth dynamics. An improving emerging market versus developed market differential has historically signalled stronger relative performance.

A slowing global economy does weigh on the asset class and overall emerging market fundamental credit quality is under some modest downward pressure. That said, many countries have ample scope for monetary policy easing due to the higher starting point for real rates and improving inflation dynamics. Emerging market inflation is falling as evidenced by global supply-chain normalisation measures and weakening producer price inflation (PPI), most notably in China. The risk of broader contagion from the group of distressed countries to the broader emerging markets asset class is, in our view, limited.

Current credit spread valuations are perhaps the most difficult area to unpick due to the continued bifurcation of the market. It is mainly the lower-rated B and CCC-rated issuers that offer wider spreads, while those in the investment grade portion are below their historical averages. Emerging market credit spreads are a function of risk aversion/volatility, which has fallen significantly year-to-date. Given the uncertain macroeconomic environment in developed markets, it is hard to discount that we will not see higher levels of risk aversion in the second half of the year. This leaves us a little more cautious in our top-down credit risk positioning compared to earlier in the year.

Source: Janus Henderson Investors, as at 30 June 2023

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Fund information (Investment policy is on the next page)

Index	JP Morgan Emerging Markets Bond Index Global Diversified
Morningstar sector	Global Emerging Markets 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 EMBI Global Diversified Index by 1.25% per annum, before the deduction of charges, over any 5-year period.

Due to current regulations we are only permitted to show performance if the share class is more than one year old.

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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 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.
- 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.
- 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.
- Callable debt securities, such as some asset-backed or mortgage-backed securities (ABS/MBS), give issuers the right to repay capital before the maturity date or to extend the maturity. Issuers may exercise these rights when favourable to them and as a result the value of the fund may be impacted.
- 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 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.

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 and other debt securities denominated in hard currencies (e.g. USD, EUR, GBP). The Fund may invest up to 30% in emerging market corporate bonds; 10% in distressed debt, 10% in contingent convertible bonds (CoCos), 10% in asset-backed and mortgage-backed securities and 10% in unrated securities.

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 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 interest rate futures, bond futures, options, swaps (including total return swaps (up to 20%), interest rate swaps, credit default swaps) and forwards, with the aim of making investment gains or to manage the Fund more efficiently.

The Fund is actively managed with reference to the JP Morgan EMBI Global Diversified 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, however the geographical scope of the Fund may have the effect of limiting the extent to which the Fund will deviate from 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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Important information

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