HORIZON EURO HIGH YIELD BOND FUND

At a glance

Performance*
The Fund returned 0.01%, the Index returned 0.40% and the Sector returned 0.20%.

Contributors/detractors
Security selection drove underperformance during the month. Sector allocation made a small positive contribution.

Outlook
While valuations appear tight, strong technicals and robust earnings could potentially extend the rally in high yield bond markets, but we feel caution is warranted.

Portfolio management

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Investment environment

- The European high yield bond market made a small positive return in February, and excess returns were positive.
- European high yield bond spreads continued to tighten over the month, although government bond yields fell (and prices rose) as the prospect of early interest rate cuts faded. The German 10-year bund yield rose 25 basis points (bps) to 2.41%. This was driven by signs of continued US economic resilience and central bank messaging.
- Minutes from the European Central Bank (ECB)'s January meeting suggested officials were more positive about inflation returning to more benign levels but stressed caution over any premature rate cuts.
- The euro area annual inflation rate eased to 2.6% in February, from 2.8% in January. There were also signs of an improvement in business activity with the services purchasing managers' index (PMI) rising to 50.2 in February from 48.4 in January (any reading above 50 indicates growth while a reading below 50 indicates contraction). By contrast, the manufacturing purchasing managers' index (PMI) contracted over February.
- In the US, high yield bond spreads tightened, while government bond yields rose. Minutes from the US Federal Reserve (Fed)'s most recent meeting suggested a reluctance to ease rates until there is evidence of strong disinflation momentum. This, alongside better-than-expected macroeconomic data, solidified investors' expectations of rate cuts later in the year. As a result, over 60 bps of rate cuts in 2024 were priced out in February.
- In terms of ratings, there was a compression theme, with lower-quality CCC-rated bonds outperforming, followed by B-rated bonds. Higher-quality BB-rated bonds lagged. In terms of sectors, non-financials outperformed financials. In non-financials, spreads in energy, retail and leisure tightened the most, while media, telecommunications, utilities and basic industry underperformed.

Portfolio review

Security selection drove underperformance during the month. Sector allocation made a small positive contribution.

At the sector level, underweight positions in transportation and consumer goods detracted from returns, while an underweight position in technology and electronics contributed positively. Security selection in real estate, capital goods and telecommunications hurt returns,

*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.

although security selection in basic industry and retail contributed positively.

At the issuer level, overweight positions in metal can packaging company Ardagh Metal Packaging and European REIT Aroundtown detracted from performance, as did not holding pharmaceutical company Catalent. An overweight position in UK telecommunications firm Virgin Media also hurt returns. Virgin Media's bonds performed very well in the recent rally, but gave back some performance in February following a disappointing earnings report for the fourth quarter.

More positively, not holding technology firm Atos, real estate company Heimstaden and French satellite operator Eutelsat added to relative returns. Overweight positions in personal care product company Ontex and UK supermarket group Asda contributed to performance. An overweight position in UK housebuilder Miller Homes also added to returns, with the company benefiting from the improving interest rate environment.

Manager outlook

Global disinflation, resilient US economic growth, and expectations of lower interest 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.

New deal activity was subdued in February, although demand remained very strong, particularly in the European high yield bond market. This continues to be a positive technical for the asset class. However, as we navigate expectations around interest rate cuts and an approaching maturity wall, we remain cautious on 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 deterioration in credit ratios is mild. However, default rates seem likely to peak at relatively low levels, with a slightly higher default rate in the US given it has a lower-quality high yield bond market than Europe. Distress is concentrated in the real estate, telecommunications, media and pharmaceutical sectors. Shifting work habits, debt loads and higher financing costs explain the problems in real estate, whereas the media sector has been struggling from weakness in cable operators and a general softening in advertising.

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 what we see as 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	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since inception (19/11/12)
	Cumulative				Annualised			
A2 EUR (Net)	0.01	4.40	1.19	8.47	-1.07	1.36	2.94	4.12
Index	0.40	4.26	1.35	10.04	0.86	2.49	3.30	4.20
Sector	0.20	3.51	0.88	8.36	0.31	1.50	2.32	3.14
A2 EUR (Gross)	—	—	—	—	—	2.57	4.17	5.41
Target	—	—	—	—	—	4.29	5.11	6.02

12 month rolling	Dec 2022-Dec 2023	Dec 2021-Dec 2022	Dec 2020-Dec 2021	Dec 2019-Dec 2020	Dec 2018-Dec 2019
A2 EUR (Net)	10.38	-14.39	2.04	2.44	11.63
Index	12.04	-11.72	3.31	2.69	10.76
Sector	9.63	-10.44	2.54	0.90	8.82

Performance is on a net of fees basis, with gross income reinvested. Source: at 29/02/24. **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.

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 ICE BofA European Currency Non-Financial High Yield Constrained Index (100% Hedged) by 1.75% 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	19 November 2012
Total net assets	323.90m
Asset class	Fixed Income
Domicile	Luxembourg
Structure	SICAV
Base currency	EUR
Index	ICE BofA European Ccy Non-Financial High Yield Constrained Index (100% Hedged)
Morningstar sector	EUR High Yield Bond
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. This is a Luxembourg SICAV Fund, regulated by the Commission de Surveillance du Secteur Financier (CSSF). 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.

Investment policy

The Fund invests at least 70% of its assets in high yield (non-investment grade, equivalent to BB+ rated or lower) corporate bonds, denominated in Euros or Sterling. The Fund may invest up to 20% of its net assets in total return swaps, and may invest in contingent convertible bonds (CoCos); and/or asset-backed and mortgage-backed securities. The Fund may also invest in other assets including bonds of other types from any issuer (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 ICE BofA European Currency Non-Financial High Yield Constrained Index (100% Hedged), 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.

Investment strategy

The Investment Manager seeks to provide a high overall yield and potential for capital growth by investing primarily in Euro and Sterling denominated sub investment grade rated corporate bonds. The investment process combines rigorous fundamentally driven security selection from the credit analysts, which is expected to be the largest driver of performance, with asset allocation views.

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. Some bonds (callable bonds) allow their issuers the right to repay capital early 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. 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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INVESTORS

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

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