COMMENTARY

Janus Henderson Horizon Euro Corporate Bond Fund

Q2 2023

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

Fund Managers Names

Tim Winstone, CFA, Tom Ross, CFA

Investment environment

Euro investment grade credit (as proxied by the iBoxx Euro Corporate Bond Index) returned 0.4% over the second quarter, with spreads finishing 8 basis points (bps) tighter.

Bond markets began the quarter robustly as volatility eased after turbulence from the failure of Silicon Valley Bank and Credit Suisse in March, and issuance resumed the year-over-year strength seen early in the year. However, credit spreads eventually widened in May as the emergency takeover of First Republic Bank led to concerns over further weakness in the US regional bank sector. Positive corporate earnings and hopes that inflation had peaked across Europe improved sentiment later in May, but drawn-out talks on the debt ceiling in the US sparked further volatility and led to spread widening into month-end before an agreement was reached in June. The last weeks of the quarter were dominated by interest rate headlines as core inflation remained sticky in major economies. Government bond markets sold off in response, with investors now expecting further monetary tightening, although credit markets continued to rally.

By region, euro investment grade corporate bonds moved modestly tighter over the quarter, but less than sterling and US dollar equivalent issues. Spreads remained relatively insensitive to volatile rate movements over the quarter and continued to settle after the bank-related stresses of March and April. At the sector level, spreads on financial debt narrowed more than those of non-financials. Within financials, spreads of senior and subordinated issues moved similarly, while real estate and insurance spreads tightened more than banks. In non-financials, it was only basic materials that saw spreads widened, due to the underperformance of chemicals. Consumer sectors and industrials also tightened markedly while telecommunications spreads tightened the least.

In the primary market, issuance moderated only slightly from the very strong start to the year and totalled €179 billion in gross terms and €69.3 billion net of maturities over the quarter.

Portfolio review

The fund returned 0.4% while its benchmark returned 0.4% over the quarter.

The fund's long interest rate positioning relative to the benchmark detracted from performance, as core government bond yields rose over the quarter to reflect a longer monetary tightening profile and persistently high inflation. Credit positioning was a slight detractor as credit spreads tightened over the quarter. More positively, security selection was a strong contributor over the quarter while asset allocation also contributed positively.

At the sector level, the fund's overweight position to financials, and in particular senior bank issues, along with consumer services worked well, primarily through security selection. Within financials, security selection in banks and real estate issuers contributed to performance, but the underweight allocation to the insurance subsector was a detractor over the quarter. Further, being underweight the chemicals subsector was a contributor as the sector was weaker through the quarter.

At the issuer level, notable contributors to the fund's returns included Logicor and Vonovia in the real estate sector. UBS (including inherited Credit Suisse bonds) and Commerzbank in the bank sector also contributed strongly as senior bank issues outperformed subordinated bonds. Intermediate Capital Group in financial services also made a notable contribution after its first-quarter results surprised positively. On the negative side, Portuguese electric utilities company Energias de Portugal, German automotive firm Volkswagen and telecommunication company Verizon detracted from performance.

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Manager outlook

The fund remains positioned modestly underweight credit relative to the benchmark. Leading recessionary indicators such as inverted yield curves and money supply are still pointing negative, but the timing of any recession is still unclear. We continue to see stubbornly elevated core services inflation in Europe. At the same time, we are beginning to see a decline in profit expectations, with several profit warnings issued in the cyclical sectors, which suggests a decline in demand. However, this decline has not yet fed through to all spaces. As a result, we expect further tightening of monetary conditions by the European Central Bank (ECB) from both policy rate levers and the unwinding of its asset purchase portfolios. In our view, the end of an era of central bank liquidity injections, alongside a global recession, would likely result in wider spreads and therefore better entry points to move the fund to an overweight credit beta position.

The macroeconomic environment remains uncertain and we continue to maintain a defensive position, tilting the fund into high-quality, non-cyclical companies with strong liquidity and fundamentally robust balance sheets. While corporate earnings have been generally resilient, a continued tightening of lending conditions is expected to affect companies of lower quality, and we think corporate defaults are also likely to tick upwards. However, given stronger starting fundamentals, we think any increase in defaults could be subdued relative to past recessions.

We maintain conviction in our overweight interest rate duration position as it continues to fit with our overall macro view and the path to lower interest rates appearing at least partially clearer to markets. Regarding inflation, we think that markets are now closer to the peak in interest rates, with further rate hikes now being correctly priced in by the markets, and we have moved our outlook in line with this. We expect markets to remain volatile with risks including the timing of the unwind of central banks' quantitative stimuli and persistent inflationary pressures. We will continue to adhere to our research-driven investment process, with a focus on taking what we see as the right amount of risk throughout the cycle.

Source: Janus Henderson Investors, as at 30 June 2023

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Fund information (Investment policy is on the next page)

Index	iBOXX Euro Corporates Index
Morningstar sector	Europe OE EUR 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 iBOXX Euro Corporates Index by 1.5% per annum, before the deduction of charges, over any 5 year period.

Performance in (EUR)

Performance %	A2 (Net)	Index	Sector	A2 (Gross)	Target (Gross)
1 month	-0.7	-0.4	-0.3	-	-
YTD	1.7	2.2	2.0	-	-
1 year	-1.4	0.1	0.2	-	-
3 years (annualised)	-4.1	-3.4	-3.2	-	-
5 years (annualised)	-1.6	-1.2	-1.3	-0.5	0.3
10 years (annualised)	0.7	1.0	0.7	1.9	2.5

Source: at 30 Jun 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	1.7	2.2	2.0
2022	-16.1	-14.2	-13.4
2021	-1.5	-1.1	-1.0
2020	3.8	2.7	2.2
2019	6.4	6.3	5.6
2018	-1.5	-1.3	-2.2
2017	2.8	2.4	2.5
2016	4.2	4.7	4.1
2015	-1.7	-0.7	-0.5
2014	7.6	8.2	6.8
2013	2.8	2.2	2.7

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.
- 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.
- 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.
- 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.

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 investment grade corporate bonds and other types of investment grade bonds, denominated in Euros. 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 iBOXX Euro Corporates 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.

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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

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.

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