FLEXIBLE INCOME FUND

At a glance

Performance*
The Fund returned 1.00%, the Index returned 0.92% and the Sector returned 0.83%.

Contributors/detractors
The fund's overall spread risk allocation contributed positively to performance, while the yield curve positioning performed in line with the benchmark.

Outlook
In our view, the combination of declining inflation and a dovish central bank, coupled with a resilient economy, sets the stage for a favourable outlook for fixed income.

Portfolio management

Greg Wilensky, CFA

Michael Keough

Investment environment

- The US fixed income market posted a positive return in March, with the Bloomberg US Aggregate Bond Index rising 0.9%. Investment grade corporate bonds outperformed high yield bonds and US Treasuries.
- Markets benefited as the US Federal Reserve (Fed) took a slightly more dovish tone at its March meeting. While the central bank chose to leave rates steady at 5.25% - 5.50%, the Fed's dot plot now indicates three rate cuts in 2024.
- The February jobs report was somewhat mixed as new jobs added exceeded expectations (+275,000 actual versus +190,000 consensus), but the unemployment rate of 3.9% exceeded expectations of 3.7%. The February inflation reading of 3.2% was consistent with expectations and a modest uptick from the 3.1% January reading.
- The yield on the 10-year US Treasury ended the month at 4.20% relative to 4.25% at the end of February. Corporate investment grade credit spreads tightened 6 basis points (bps) to 90 bps, while high yield bond spreads tightened 13 bps to 299 bps, as investors increased their risk appetite given the more positive outlook.

Portfolio review

The key driver of the fund's outperformance during the period was the overweight position to investment grade corporate bonds, which outperformed due to economic resilience and good news on the labour market front. Our allocation to agency mortgage-backed securities (MBS) detracted.

We maintained the fund's duration overweight position during the period. We believe rates are likely to fall in 2024 due to a dovish Fed and declining inflation. We also like the defensive characteristics of higher-duration exposure in the event the economy cools more quickly than expected.

As credit spread products have continued to deliver strong excess returns, valuations seem to have priced in a lot of the more favourable outlook. Nevertheless, we continue to believe the yields and carry available across fixed income look attractive and may continue to support investor demand.

Manager outlook

What a difference a year can make. At the start of 2023, inflation was running at 6.5%, predictions of a recession were rife, and the Fed was maintaining its hawkish stance. The central bank would hike rates another four times in the first half of 2023. Fast forward to the first quarter of 2024 and inflation has declined to 3.2%, the Fed is forecasting

*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.

three rate cuts in 2024, and it has signalled its intent to taper its quantitative tightening program. Economic growth, jobs growth, and corporate earnings have continued to surprise positively. In our view, this is all broadly positive for fixed income markets.

Market participants are grappling with questions of when, and by how much, the Fed will cut rates. This has resulted in some rate volatility and an uptick in yields as the market reprices to align rate-cut expectations with the Fed's own projections. Notwithstanding the tug-of-war taking place in rates markets in the short term, we believe the current monetary and economic environment sets up well for a favourable multiyear outlook for fixed income. We expect the recent strong demand for fixed income to continue - and potentially accelerate once the Fed starts cutting rates - as investors aim to lock in attractive yields and benefit from the diversification that bonds may bring to multi-asset portfolios.

While the outlook has continued to improve and the economic 'soft landing' appears to be the most likely outcome, we do expect the economy to gradually slow to below-trend growth. Yet, we take comfort that the Fed's dual mandate is coming back into balance, enabling it to react to any unexpected economic weakness with aggressive stimulative measures, because inflation has moderated.

We maintain our focus on the health of the consumer, the job market outlook, and how corporations fare through this environment. We favour an overweight position to both credit spread risk and interest rate risk, as the economy remains resilient, and as the Fed has firmly established its dovish stance. Further, we continue to favour securitised sectors for their relative value, as well as higher-rated assets for their defensiveness, in case we witness economic softening.

Performance (%)

Returns	Cumulative 1 Month	3 Month	YTD	1 Year	Annualised 3 Year	5 Year	10 Year
A2 USD (Net)	1.00	-0.93	-0.93	0.40	-3.99	-0.52	0.18
Index	0.92	-0.78	-0.78	1.70	-2.45	0.36	1.54
Sector	0.83	-0.37	-0.37	2.02	-1.79	0.67	1.28
A2 USD (Gross)	—	—	—	—	—	1.37	2.11
Target	—	—	—	—	—	1.62	2.81

Calendar year	YTD at Q1 2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A2 USD (Net)	-0.93	3.88	-15.24	-2.33	8.89	7.90	-2.23	2.18	1.15	-1.14	3.44
Index	-0.78	5.53	-13.01	-1.54	7.51	8.72	0.01	3.54	2.65	0.55	5.97
Sector	-0.37	4.75	-10.17	-1.50	6.92	7.66	-1.19	4.08	2.23	-0.63	4.16

Performance is on a net of fees basis, with gross income reinvested. Source: at 31/03/24. **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, while seeking to limit losses to capital (although not guaranteed) over the long term. Performance target: To outperform the Bloomberg US Aggregate Bond Index by 1.25% 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	24 December 1998
Total net assets	499.93m
Asset class	Fixed Income
Domicile	Ireland
Structure	Irish Investment Company
Base currency	USD
Index	Bloomberg US Aggregate Bond Index
Morningstar sector	USD Diversified 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 an Irish Investment Company regulated by the Central Bank of Ireland. A short-term trading fee may be applied upon exiting the fund as per the prospectus. Ongoing charge represents the ongoing costs to the fund, which includes the AMC and other charges for services such as keeping a register of investors, calculating the price of the fund's units or shares and keeping the fund's assets safe. 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. The ongoing charge is calculated using the PRIIP methodology. The PRIIP methodology differs to the UCITS ongoing charge methodology, as the PRIIP methodology captures additional recurring charges, including but not limited to: Interest paid on borrowing (e.g. bank interest); Any fees incurred in relation to stock-lending activity (i.e. the fee paid to the lending agent); Any costs associated with holding closed-ended vehicles. Cash balances and exposures are based on settled and unsettled trades as at the reporting date.

Investment policy

The Fund invests at least 67% (but normally more than 80%) of its assets in US bonds of any quality, including high yield (non-investment grade) bonds and asset-backed and mortgage-backed securities, issued by governments, companies or any other type of issuer. The Fund may also hold other assets including bonds of other types from any issuer, preference shares, cash and money market instruments. The Sub-Investment Adviser 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 US Aggregate 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 Sub-Investment Adviser 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 Sub-Investment Adviser draws on Janus Henderson's integrated fixed income and equity research function, to identify the best risk-adjusted opportunities for the Fund. The strategy has the flexibility to deviate significantly from the index on a sector basis while having a strong focus towards the US. The investment process is dynamic with allocations to different types of bonds determined by the opportunities which exist and is supported by a proprietary research and risk management system.

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 invests in Asset-Backed Securities (ABS) and other forms of securitised investments, which may be subject to greater credit / default, liquidity, interest rate and prepayment and extension risks, compared to other investments such as government or corporate issued bonds and this may negatively impact the realised return on investment in the securities. 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. 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. The Fund involves a high level of buying and selling activity and as such will incur a higher level of transaction costs than a fund that trades less frequently. These transaction costs are in addition to the Fund's ongoing charges.

FOR MORE INFORMATION PLEASE VISIT **JANUSHENDERSON.COM**

Janus Henderson INVESTORS

Source: Janus Henderson Investors, as at 31 March 2024, unless otherwise noted.