COMMENTARY

Janus Henderson Horizon Strategic Bond Fund

August 2023

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

Fund Managers Names

John Pattullo, Jenna Barnard, CFA, Oliver Bardot, CFA

Investment environment

Bond yields drifted over August. The month ended with some encouraging evidence to support our own analysis on where we are in the business cycle, especially around labour markets. A number of narratives circulated, pushing bond yields around in some light summer trading. US 10-year Treasury yields tested their October 2022 highs of 4.34%, but stayed below. This is broadly true of most developed world government bond markets, even though some (such as UK gilts) may have had false breakouts and returned to the same levels. The widening spread (the difference between corporate and government bond equivalents) on the Japanese yield curve caused some initial weakness in global bond yields, and this was compounded by announcements of increased supply and some marginal auctions. Real money accounts already appear to be taking a long duration (sensitivity to interest rates) risk position, while the faster money (such as commodity trading advisers and hedge funds) pushed existing short positions wider during the summer doldrums.

Chinese and European economic data was noticeably weak. China is now seeing negative inflation while the much-covered property bubble further exposed itself as Country Garden's equity was wiped out due to fears of a default. Chinese property stocks and property high yield bonds have fallen heavily recently, which has had a major knock-on effect on numerous wealth management funds. Furthermore, about 45% of Country Garden's creditors are individuals who have already paid for yet-undelivered houses. The Chinese authorities cut lending rates, and (allegedly) supported both the currency and equity markets. Much has been written about the situation in China having parallels with Japan, and we have much sympathy with this view. If anything, we think over time it may prove to be worse. We will be keeping an eye on the exchange rate versus the US dollar, along with the oil price.

European manufacturing activity seems to be deteriorating rapidly, with parts of the continent appearing recessionary. In the words of President of the European Central Bank (ECB), service activity seems to be catching down to weakened industrial activity. The ECB dropped its hawkish tone and appeared most concerned about the lack of bank lending and activity.

US data is arguably fading from hot to warm. Good progress continues to be made in the fall in headline, core and even "super core" inflation, which the Federal Reserve (Fed) monitors very closely. A word of warning however, is that due to base/seasonal effects, inflation (on a number of measures) may rise slightly in September. We think thereafter it will continue to head downwards. There are always a few contributing sub-sectors, but the general direction of travel appears to be most gratifying. The debate has moved on from inflation towards the employment markets and economic growth prospects. US August non-farm payroll data came in low. While it included some downwards revisions to prior months, it also included a significant rise in unemployment from 3.5% to 3.8%. Fed Chairman Powell targets a number of specific variables, such as job openings to employment ratios and the number of people quitting the workforce. We find it hugely encouraging that the monetary tightening already in the system is now impacting behaviours. Markets believe the Fed is now putting any further rate rises on hold, suggesting that sovereign bonds now offer asymmetrically positive returns. We feel we are close to a tipping point in which either the employment markets continue to weaken at an increasing pace and/or the Fed breaks something with its monetary policy.

Portfolio review

The fund returned -0.7% over August.

In a nutshell, we have positioned the fund for an economic 'hard landing' while the market appears to be pricing in a soft landing. While this might seem too defensively positioned, this is by design given our outlook. Our overweight position to North American and UK duration (both in terms of government and corporate bonds) relative to Europe detracted from performance in August. The underweight position to corporate bonds relative to the peer group also detracted from returns, as we hold a modest position in investment grade bonds and a very small high yield bond holding.

Trading activity was very light as we are happy with the fund's current positioning.

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Manager outlook

August is always an unusual month in markets. And although it might not currently be reflected in bond prices, we were generally encouraged by the progression of the economic cycle. We also take comfort from investor flows at the market level, as the appeal of holding bonds is being recognised. Equity risk premiums have shrunk materially. However, it is easy to point out market anomalies while it is harder to have the patience to let markets see sense. We think a tipping point is in sight as the existing tightening in monetary policy from central banks will begin to bite in due course.

Source: Janus Henderson Investors, as at 31 August 2023

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Fund information (Investment policy is on the next page)

Index	Not Applicable
Morningstar sector	Europe OE Global Flexible Bond - USD
Objective	The Fund aims to provide a return, from a combination of income and capital growth, over the long term (5 years or more).

Performance in (USD)

Performance %	A2 (Net)	Sector
1 month	-0.7	-0.1
YTD	-0.7	3.1
1 year	-4.9	3.1
3 years (annualised)	-5.4	-0.9
5 years (annualised)	0.0	1.6
Since inception 26 Jul 2017 (annualised)	0.1	1.4

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)	Sector
2023 to 30 Jun 2023	-0.4	2.2
2022	-17.2	-8.6
2021	-0.2	0.1
2020	10.7	5.6
2019	10.1	9.5
2018	-0.7	-1.5
2017 from 26 Jul 2017	1.4	1.5
2016	-	-
2015	-	-
2014	-	-
2013	-	-

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.

From 1 January 2023 Oliver Bardot also manages this fund. From 16 March 2023 the Fund changed its investment policy. Past performance shown before this date was achieved under circumstances that no longer apply.

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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.
- 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 in bonds of any quality, including high yield (non-investment grade) bonds, asset-backed and mortgage-backed securities and distressed debt, issued by governments, companies or any other type of issuer, in any country. The Fund may invest up to 50% of its net assets in total return swaps.

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 also invest in other assets including perpetual bonds, convertible bonds, contingent convertible bonds (CoCos), company shares (equities), preference shares, 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 without reference to a benchmark. The investment manager has complete freedom to choose individual investments for the Fund and to vary allocations between different types of bonds.

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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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