CAUTIOUS MANAGED FUND

At a glance

Performance*

The Fund returned 7.05%, the Index returned 5.30% and the Peer Group returned 5.68%.

Contributors/detractors

The fund outperformed thanks to both sector allocation and security selection within its equity and bond portfolios.

Outlook

Despite optimism around potential interest rate cuts, we remain cautious and will continue to focus on high-quality companies in the typically more economically resilient sectors.

Portfolio management

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Investment environment

- The last two months of 2023 saw a strong rebound in performance from both equities and fixed income. After a difficult October, when investor sentiment was mired by the conflict between Israel and Hamas, as well as the prospect of 'higher for longer' interest rates, investors took heart from meaningful falls in inflation data and the growing belief that terminal interest rates had been reached. Expectations that rate cuts would come sooner than originally predicted were further reinforced by the US Federal Reserve (Fed)'s December meeting, where policymakers signalled rate cuts of 75 basis points (bps) in 2024. This led to the US dollar weakening against most major currencies, and it declined to a five-month low versus sterling. UK inflation eased by more than expected while the third quarter GDP growth figure was revised down to -0.1%, after an initial estimate of zero growth.
- UK equities delivered solid positive returns over the quarter. Having underperformed larger companies through most of 2023, small- and mid-cap indices rallied strongly over the last two months, as falling bond yields implied lower borrowing costs and improved economic prospects. This ignited investors' risk appetite. Most of the UK's major sectors recorded positive gains over the quarter, with the best returns coming from the interest rate sensitive real estate sector. Technology also continued its strong run of performance, a trend that prevailed through much of the year. By contrast, the sliding oil price pushed the energy sector into negative territory while typically more defensive sectors, such as health care and consumer staples, also lagged the broader market.
- Bond markets also bounced following the shift in interest rate expectations, with the UK 10-year gilt falling 90 bps to 3.54% (meaning prices rose). The 10-year Treasury yield fell 69 bps to 3.88%, while the German 10-year yield fell by 82 bps to 2.02%. As expected, the major central banks left interest rates on hold over the quarter. Improved investor optimism, thanks to the potential of future interest rate cuts and prospects for economic growth, helped credit (corporate bonds) to outperform government bonds.

Portfolio review

The fund's equity holdings generated a positive return over the quarter, easily outpacing the FTSE All-Share Index. Both sector allocation and security selection contributed to this outperformance. From an asset allocation perspective, positive contributions included the fund's below-market exposure to the energy sector, which was weaker due to the softer oil price, and the overweight positioning in technology, which benefited from the shift in interest rate expectations and investor enthusiasm over the prospects of advances in artificial intelligence (AI). By contrast, the overweight position to the more defensive consumer staples sector was a detractor, although our stock choices

Marketing communication

Past performance does not predict future returns.

*For benchmark/usage and peer group, 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.

here were helpful for relative returns. The fund's modest position to off-benchmark international companies, such as Canada's Barrick Gold, boosted performance.

With regards to stock selection, the overweight position in DCC was one of the largest positive contributors to outperformance following acquisition plans within its zero-carbon energy management division. The above-benchmark position to share trading platform IG Group benefited from the renewed investor interest in more cyclical business areas, as well as the appointment of a new CEO. In contrast, a zero weight in the strongly performing miner Rio Tinto (which represents a relatively significant weighting in the benchmark) held back relative fund returns. Similarly, our decision to avoid Rolls Royce detracted from performance amid a rally in its share price due to further evidence of the turnaround in its civil aerospace division.

The fund's fixed income allocation also generated a positive return, outpacing its ICE BofA Sterling Non-Gilt Index benchmark. The outperformance was driven by the above-benchmark position to interest rate risk (duration) as investors moved to price in interest rate cuts. Asset allocation was positive, with the avoidance of government bonds and underweight allocation to insurance bonds (which lagged banks and real estate) among the largest positive contributors. The overweight position to bank issuers also worked well. By contrast, the underweight position to the real estate sector, which performed strongly over the quarter, held back the fund's relative returns.

Security selection was positive for relative returns. Issuer selection among banking names was strong, with instruments issued by Credit Agricole, Santander and Wells Fargo among the top contributors. Elsewhere, the position in Mercedes-Benz debt was also positive as automobiles was one of the best performing sectors over the quarter. Conversely, our participation in a new Royal Mail sterling bond issue detracted from quarterly performance, as did a position in Thames Water amid the ongoing concerns around the utility company's financial and operational viability.

Over the quarter, we tactically increased the fund's overall equity weighting to take advantage of what we saw as attractive valuations among mid- and small-cap stocks. We initiated a position in British Land due to improving operational performance, as well as our view that the business could benefit from easing interest rates. Towards the end of the quarter, we began to take some profits in the equity portfolio after the sharp rebound from the October lows. We trimmed positions across a number of high beta holdings which we saw as overbought. There were also some outright sales. One example was our exit from the retailer Next following strong share price appreciation, and a re-rating back to the top of its historic valuation range, as UK consumer confidence recovered from its previous lows.

Within fixed income, we participated in several attractive new issues in banks and utilities, our two largest sector positions. These included the French bank, Société Générale, and the UK utility company Southern Water, along with Teleperformance, a French information technology business, and the US industrial company, Carrier Global. We believe all of these offered value relative to the secondary market. We reduced the fund's position in Thames Water due to continued negative market sentiment, given concerns over its ability to service its onerous debt. Towards the end of the year, we reduced the positions in Italian energy provider Enel and National Grid as we anticipate the opportunity to add back utility exposure at more attractive prices through the primary market in early 2024. For similar reasons, we also slightly reduced the fund's banking exposure, ahead of expectations around supply in the new year.

Manager outlook

The last two months have seen a strong rebound in performance from both equities and fixed income. The fund benefited after we added to its risk exposure back in October. The main catalyst for the change in fortune came from a significant shift in interest rate expectations. Investors are increasingly confident that the major global central banks have finished their aggressive cycle of interest rate hiking and may soon be cutting rates.

Investors have moved quickly to price in an economic 'soft landing' (a slowdown in inflation and economic growth, but avoiding recession) after inflation data came in consistently below expectations and there was a change in tone from central bank officials. However, we expect further market volatility given investors' high sensitivity to economic data releases and the public pronouncements of central bankers.

We continue to see elevated risks for the global economy. These include the lagged impact of monetary policy tightening, uncertainty around the upcoming US presidential election, heightened geopolitical risk, and the depletion of Covid-era excess savings and its potential impact on consumer spending. 2024 is also a significant year for elections, beginning with Taiwan's presidential election in January, which could set the tone for the US-China relations over the next few years. While we have been encouraged by the falls in UK inflation, we maintain our cautious view on the prospects for the UK economy and maintain our bias to high-quality companies in typically more resilient sectors.

We remain broadly constructive on investment grade credit, although we maintain our conservative stance here as well, focusing on liquid credits underpinned by strong balance sheets. We think it is still unclear which path the economy is going to take in 2024, and the speed and magnitude of any interest rate cuts will likely be the key in determining the outcome. We believe rates will move a little lower, hence we are comfortable in maintaining the fund's marginal overweight duration position for now. While we believe that investment grade markets will appreciate a little further, we think that a discriminating approach to security selection is essential when looking for value in a market that has remained relatively strong against a backdrop of elevated uncertainty.

Source: Janus Henderson Investors, as at 31 December 2023

Performance (%)

Returns	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since inception (03/02/03)
	Cumulative				Annualised			
I Acc (Net)	4.52	7.05	8.39	8.39	3.14	4.19	3.30	5.71
Index	4.43	5.30	8.37	8.37	1.87	3.62	4.30	6.32
Peer Group	3.82	5.68	6.86	6.86	0.87	3.55	3.56	4.89
I Acc (Gross)	—	—	—	—	—	4.94	4.04	6.47
Target	—	—	—	—	—	5.17	5.86	7.91

12 month rolling	Dec 2022-Dec 2023	Dec 2021-Dec 2022	Dec 2020-Dec 2021	Dec 2019-Dec 2020	Dec 2018-Dec 2019
I Acc (Net)	8.39	-6.80	8.61	-1.17	13.22
Index	8.37	-9.06	7.27	-1.18	14.33
Peer Group	6.86	-9.63	6.28	3.49	12.08

Performance is on a net of fees basis, with gross income reinvested. Source: at 31/12/23. **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. This is a representative share class for the fund, other share classes are available and may be more suitable for your investment needs.

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.

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 50% FTSE All Share + 50% ICE Bank of America Sterling Non Gilt Index by 1.5% 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.
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Fund details

Inception date	01 February 2003
Total net assets	795.75m
Asset class	Mixed Asset
Domicile	United Kingdom
Structure	OEIC
Base currency	GBP
Index	50% FTSE All Share/50% ICE Bank of America Sterling Non-Gilt Index
Peer group	IA Mixed Investment 20-60% Shares sector

For benchmark/usage description, refer to Additional fund information on page 4.

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 are detailed on the specific KIID, fees and charges may vary and further information can be found in the fund's prospectus and KIID which must be reviewed before investing. Please consult your local sales representative if you have any further queries. From 1 July 2020, the Fund's benchmark changed from 50% FTSE All Share + 50% ICE Bank of America ML 5-15 Year Sterling Non Gilt Index to 50% FTSEAll Share + 50% ICEBank of AmericaMLSterling Non Gilt Index. Past performance before 1 July 2020 is shown for the Fund's previous benchmark. 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 into the fund will acquire units/shares of the fund itself and not the underlying assets owned by the fund. References made to individual securities do not constitute a recommendation to buy, sell or hold any security, investment strategy or market sector, and should not be assumed to be profitable. Janus Henderson Investors, its affiliated advisor, or its employees, may have a position in the securities mentioned.

The 50% FTSE All Share + 50% ICE Bank of America Sterling Non Gilt Index is a composite index reflecting 50% exposure to shares listed on the London Stock Exchange and 50% exposure to corporate bonds. It forms the basis of the Fund's performance target and provides a useful comparison against which the Fund's performance can be assessed over time.

The Investment Association (IA) groups funds with similar geographic and/or investment remit into sectors. The Fund's ranking within the sector (as calculated by a number of data providers) can be a useful performance comparison against other funds with similar aims.

Investment policy

The Fund invests in shares (also known as equities) and bonds of governments, companies or any other type of issuer, in any country. At all times the investment in equities will be limited to a maximum of 60% of the value of the Fund's portfolio and the Fund will normally have a strong bias towards UK companies and bonds. Companies and bond issuers may be of any size, in any industry. The Fund may also invest in other assets including cash and money market instruments. The investment manager may use derivatives (complex financial instruments) to reduce risk or to manage the Fund more efficiently. The Fund is actively managed with reference to the 50% FTSE All Share + 50% ICE Bank of America Sterling Non Gilt Index, which is broadly representative of the securities in which it may invest, as this forms the basis of the Fund's performance target. The investment manager has a high degree of freedom to choose individual investments for the Fund. As an additional means of assessing the performance of the Fund, the IA Mixed Investment 20-60% Shares sector average, which is based on a peer group of broadly similar funds, may also provide a useful comparator. Investors should note that many funds in the sector peer group have a more global focus than the Fund.

Investment strategy

The investment manager looks to balance the long-term growth and income potential of equities with the more stable returns offered by bonds and cash. The strategy has the flexibility to adjust to changing market conditions by altering the level of exposure to the different asset classes. In managing the equity portion of the portfolio, the investment manager will typically follow a value investment style, seeking companies it believes to be undervalued by the market that may be more resilient in periods of economic uncertainty.

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. In respect of the equities portfolio within the Fund, this follows a value investment style that creates a bias towards certain types of companies. This may result in the Fund significantly underperforming or outperforming the wider market. 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. Shares/Units can lose value rapidly, and typically involve higher risks than bonds or money market instruments. The value of your investment may fall as a result. 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. 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 with the aim of reducing risk or managing the portfolio more efficiently. However this introduces 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.

Source: Janus Henderson Investors, as at 31 December 2023, unless otherwise noted.