COMMENTARY

Janus Henderson Horizon Global High Yield Bond Fund

August 2023

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

Fund Managers Names

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Investment environment

The global high yield bond market returned 0.2% in August, as measured by the ICE BofA Developed Markets High Yield Constrained Index (hedged to euros). Excess returns (versus equivalent government debt) were positive.

August saw a pause following July's spread tightening, with spreads range-bound to slightly wider in global high yield bond markets over the month. Resilient US economic data in the first half of the month increased investor expectations that central banks would need to keep interest rates higher for longer. This led US government bonds to sell off sharply and at one point the 10-year Treasury yield rose to the highest level since November 2007. However, around the same time Fitch downgraded the US's sovereign credit rating from AAA to AA+, raising concerns about the budget deficit and leading to hopes that the US Federal Reserve (Fed) would soon cut interest rates. Weaker-than-expected economic data in the second half of the month then supported yields, although they ended the month higher overall, with the 10-year Treasury yield closing at 4.11% (up 15 basis points).

In Europe, weak macroeconomic indicators, notably the eurozone composite purchasing managers' index (PMI), and still-elevated inflation, raised uncertainty about the European Central Bank (ECB)'s next move in September. In China, disappointing industrial production data, weaker consumer spending and further volatility in the property sector also weakened sentiment.

Regionally, US high yield bonds outperformed after posting positive excess returns, while European and emerging market high yield bonds were both negative in excess return terms. In the US, CCC-rated bonds outperformed, followed by B-rated bonds and then BB-rated bonds, which posted a small negative excess return. There was a similar compression theme in Europe, with CCC-rated bonds posting positive excess returns, followed by B-rated bonds. BB-rated bonds were the laggard and posted negative excess returns.

Portfolio review

The fund posted a negative return and underperformed its benchmark index.

Both security selection and sector allocation detracted from performance over the month. Credit risk allocation contributed to returns, with the fund's marginal underweight credit beta position relative to the benchmark contributing as spreads widened over the month. In addition, the short high yield risk position implemented through credit default swaps (CDS) indices also contributed positively, as high yield CDS indices moved wider relative to high yield corporates.

At the sector level, overweight positions in retail and leisure detracted from performance, predominantly through security selection effects, while an underweight position in and security selection within telecommunications also weighed on returns. The fund's underweight position and security selection within real estate contributed positively to performance, as did selections in health care and financial services.

At the issuer level, overweight positions in UK foodservice company SSP and US retailer Victoria's Secret (where results were disappointing) detracted from returns. We have sold the position in Victoria's Secret. The fund's underweight position relative to the benchmark in French telecommunications company SFR also detracted from relative returns after the bonds came back in August, given the low entry point following July's negative news flow. On the other side, overweight positions in Heartland Dental and Air Transport Services Group contributed positively to returns. Additionally, having no holdings in Medical Properties Trust, a health care REIT, and Mexican quasi-sovereign energy company Pemex, helped relative returns.

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Manager outlook

We covered the fund's underweight position to credit beta relative to the index over the month, to bring it close to neutral. Leading recessionary indicators such as inverted yield curves and money supply are still pointing negative, but the timing of any recession is still unclear. There has been a bit of a narrative shift in the US, with the strong employment data and services sector holding up as consumers continue to spend.

Company earnings data has been mixed. Lower profit margins over the summer for companies in sectors such as chemicals and industrials suggest we could be entering a potential manufacturing industrial recession. That said, the chemicals sector - which was weak earlier in the summer and is typically one of the first sectors to trend negative during a recession - was significantly tighter in August. Cyclical industrial sectors feel challenged on growth, but this is not feeding through to credit spreads.

We believe that tighter lending standards, higher refinancing costs and a slowing economy will gradually take its toll on credit quality, causing default rates to increase. In the event of a hard landing, we do not expect to see the previous high single-digit default percentages as a recession is widely anticipated and most companies have prepared for this with low leverage and plenty of cash on their balance sheets.

Issuance in high yield bond markets was light in August and continues to be a positive market technical for the asset class. That said, we caution that the refinancing wall, though not right upon us, is getting closer as more and more companies will likely look to refinance. This is something we are monitoring closely.

High yield bond valuations do not seem to be pricing in a recession, with spreads close to long-term averages on a rating-adjusted basis. In comparison, the yields on offer are notably above average and provide some cushion against spread widening through more attractive carry.

We do expect more 'trouble credits' to emerge as the lagged impact of tighter policy takes effect. For this reason, and in line with our more cautious stance, we continue to tilt the composition of our high yield bond holdings towards high-quality, non-cyclical companies with strong liquidity and fundamentally robust balance sheets. Nimbleness and careful credit selection remains key, and 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 31 August 2023

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Fund information (Investment policy is on the next page)

Index	ICE BofA Global High Yield Constrained Index (100% Hedged)
Morningstar sector	Europe OE Global High Yield Bond
Objective	The Fund aims to provide an income with the potential for capital growth over the long term.
Performance target	To outperform the ICE BofA Global High Yield Constrained Index (100% Hedged) by 1.75% per annum, before the deduction of charges, over any 5 year period.

Performance in (USD)

Performance %	A2 (Net)	Index	Sector	A2 (Gross)	Target (Gross)
1 month	-0.2	0.1	-0.2	-	-
YTD	5.0	6.6	5.6	-	-
1 year	2.8	7.4	6.7	-	-
3 years (annualised)	-1.5	0.9	0.3	-	-
5 years (annualised)	1.7	3.0	1.8	3.0	4.8
Since inception 19 Nov 2013 (annualised)	3.9	4.1	2.2	5.2	5.9

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)	Index	Sector
2023 to 30 Jun 2023	3.7	4.9	4.2
2022	-14.6	-11.4	-11.7
2021	0.4	3.0	2.4
2020	6.2	6.5	5.3
2019	18.0	14.5	12.4
2018	-2.2	-1.9	-3.7
2017	8.5	8.0	8.1
2016	14.4	16.2	10.9
2015	1.0	-2.0	-5.0
2014	3.7	2.5	-1.0
2013 from 19 Nov 2013	1.6	1.0	1.1

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?

- 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. High yielding (non-investment grade) bonds are more speculative and more sensitive to adverse changes in market conditions.
- 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.
- 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.
- 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.
- 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.
- 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.
- Emerging markets expose the Fund to higher volatility and greater risk of loss than developed markets; they are susceptible to adverse political and economic events, and may be less well regulated with less robust custody and settlement procedures.
- 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.
- The Fund may incur a higher level of transaction costs as a result of investing in less actively traded or less developed markets compared to a fund that invests in more active/developed markets. These transaction costs are in addition to the Fund's Ongoing Charges.

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 high yield (non-investment grade, equivalent to BB+ rated or lower) corporate bonds, in any country. 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 Global 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.

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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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