Janus Henderson INVESTORS

HORIZON EURO HIGH YIELD BOND FUND

At a glance

Performance*

The Fund returned 1.30%, the Index returned 1.74% and the Sector returned 1.36%.

Contributors/detractors

The fund's marginal underweight position to interest rate duration relative to the benchmark detracted from performance. Sector allocation and security selection contributed strongly to performance.

Outlook

Despite some single-name volatility, we remain cautiously optimistic on the outlook for high yield markets and believe credit spreads have the potential to tighten a little more.

Portfolio management

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Investment environment

- European high yield bonds strengthened over the first quarter, and excess returns (versus equivalent government debt) were positive.
- European high yield bonds were supported throughout the quarter by increased demand for the asset class. However, volatility spiked in March following news that indebted telecommunications firm Altice France may need to undergo a balance-sheet restructuring that would see bondholders taking a haircut. This led to European high yield credit spreads widening in March.
- The European Central Bank (ECB) held its deposit rate at a record 4.0% over the quarter. Minutes from its January meeting suggested officials were more positive about inflation returning to more benign levels but stressed caution over any premature rate cuts.
- Eurozone annual inflation cooled to 2.4% in March, which was the same level as November's more than two-year low. At its March meeting, the ECB suggested it could begin easing borrowing conditions from June.
- Yields on core 10-year government bonds rose (and prices fell, reflecting their inverse relationship) as the prospect of early interest rate cuts faded. The German bund yield increased 27 bps to 2.30%. The US Federal Reserve (Fed) and the Bank of England (BoE) both left interest rates unchanged across the quarter.
- By credit rating, there was a decompression theme across the ratings categories, although all categories posted positive excess returns. CCC-rated bonds were the weakest, primarily due to weakness caused by the Altice France/SFR news and the associated transmission to other lower-quality issuers. BB-rated bonds were the strongest in excess return terms.
- In terms of sectors, non-financial outperformed financials. Within non-financials, energy was the best-performing sector, followed by retail and consumer goods, while spreads widened in technology and telecommunications during this period.

Portfolio review

The fund's marginal underweight position to interest rate duration relative to the benchmark detracted from performance. Sector allocation and security selection contributed strongly to performance.

At the sector level, underweight positions in consumer goods, transportation and telecommunications detracted from returns, as did an overweight position in utilities (made up of Thames Water). An underweight position in

*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.

technology and electronics (due to the underweight in Atos) and overweight position in banks and basic industry contributed positively to returns. Security selection in capital goods and financial services was negative for performance, although security selection in real estate, telecommunications and utilities contributed strongly. From a ratings perspective, the fund's underweight allocation to and security selection in CCC-rated bonds contributed positively.

At the issuer level, an overweight position in packaging company Ardagh detracted from performance. Not owning some real estate issuers also hurt performance, including REIT Heimstaden Bostad and its holding company Heimstaden, as the bonds continued to rebound over the quarter. Other notable detractors included Swiss luxury watchmaker Zenith and Virgin Media.

More positively, a lack of exposure to technology company Atos also helped relative returns, as the company is heavily indebted and the bonds are trading at highly stressed levels. We benefited from overweight positions in real estate companies CPI Property and Aroundtown after their bonds rebounded, along with the wider real estate sector, as interest rate expectations improved.

The fund's positioning in the Altice complex contributed to relative performance. As a highly levered, mature business, Altice France (SFR) has struggled in the higher rate environment over the last 12 months. In March, the company announced that it would need to undergo debt restructuring that could see bondholders lose out, which led to a significant drop in its bond prices.

The fund benefited from its zero-weight position in Altice France's senior unsecured bonds, which saw the biggest drop in price, and its exposure to the senior secured bonds, so our overall position added to performance.

In terms of activity, we added some new issues to the fund over the quarter, including chemicals firm Ineos, automotive company Schaeffler, car manufacturer Aston Martin and film and television studio company Pinewood Studios. We also added some corporate hybrid bonds, including BT and Dutch grid operator TenneT. We also increased the fund's position in housebuilder Miller Homes, as we like the outlook for its business given sustained demand for new build homes and as mortgage rates begin to fall.

Manager outlook

Macroeconomic data in March has showed that the risk of an economic hard landing in the US has diminished. However, inflation is proving more stubborn, particularly in services and wages. In Europe, it seems like the weakest period for growth is behind us, with first-quarter GDP growth in the eurozone and the UK likely to be modestly positive. Meanwhile, eurozone inflation is now close to the ECB's target level.

That said, we still expect to see volatility in the coming months as expectations change around the timing and magnitude of interest rate cuts. Market dynamics remain relatively positive, and we believe there will be a tailwind of investment into risk assets this year, given the higher rate environment and the reinvestment risk investors will face once the interest rate cuts that have been priced in start to materialise.

Despite some single-name volatility in the high yield market in March, we remain cautiously optimistic about the outlook for the asset class and believe credit spreads have the potential to tighten a little more, given the current benign macroeconomic backdrop.

The biggest risk for high yield bonds is interest rates staying higher for longer, as a continued high rate environment will negatively impact bigger, more mature business with large capital structures. These companies tend to be lower-rated issuers and, as a result, the fund is fully underweight in CCC-rated issuers across all high yield markets.

We are also wary of overly optimistic valuations, particularly as the macroeconomic picture is far from clear. Geopolitical risks remain elevated, with conflicts such as Russia's invasion of Ukraine looking more likely to escalate than deescalate in the near future. The political risk fuelled by general elections is high on our watch list as nearly 60% of the world's democratic population - including the US and the UK - goes to the polls over the year.

Technicals remain solid for the asset class, with still-elevated supply being met with positive demand. This should turn into a tailwind in the second quarter as supply is expected to drop sharply as companies start to enter earnings-related blackout periods.

However, as we navigate expectations around interest rate cuts and an approaching debt maturity wall, we remain cautious on the companies with increasing leverage and lower interest rate coverage ratios but positive on companies that continue to have reasonably good interest cover ratios and strong free cash flow measures.

We continue to position the portfolio to benefit from a positive credit backdrop, but remain focused on relative and idiosyncratic value while also managing downside risks in order to deliver attractive risk-adjusted returns.

Performance (%)

Returns	Cumulative 1 Month	3 Month	YTD	1 Year	Annualised 3 Year	5 Year	10 Year
A2 EUR (Net)	0.11	1.30	1.30	9.28	-1.15	1.21	2.87
Index	0.38	1.74	1.74	10.65	0.80	2.38	3.28
Sector	0.47	1.36	1.36	9.38	0.29	1.45	2.31
A2 EUR (Gross)	—	—	—	—	—	2.41	4.11
Target	—	—	—	—	—	4.17	5.09

Calendar year	YTD at Q1 2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A2 EUR (Net)	1.30	10.38	-14.39	2.04	2.44	11.63	-2.26	5.11	9.53	4.63	3.63
Index	1.74	12.04	-11.72	3.31	2.69	10.76	-3.44	6.10	9.96	1.26	5.04
Sector	1.36	9.63	-10.44	2.54	0.90	8.82	-4.21	5.69	7.64	1.46	3.77

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 over the long term.
Performance target: To outperform the ICE BofA European Currency Non-Financial High Yield Constrained Index (100% Hedged) by 1.75% 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	19 November 2012
Total net assets	333.40m
Asset class	Fixed Income
Domicile	Luxembourg
Structure	SICAV
Base currency	EUR
Index	ICE BofA European Ccy Non-Financial High Yield Constrained Index (100% Hedged)
Morningstar sector	EUR High Yield 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 a Luxembourg SICAV Fund, regulated by the Commission de Surveillance du Secteur Financier (CSSF). 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. Cash balances and exposures are based on settled and unsettled trades as at the reporting date.

Investment policy

The Fund invests at least 70% of its assets in high yield (non-investment grade, equivalent to BB+ rated or lower) corporate bonds, denominated in Euros or Sterling. 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 European Currency Non-Financial 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.

Investment strategy

The Investment Manager seeks to provide a high overall yield and potential for capital growth by investing primarily in Euro and Sterling denominated sub investment grade rated corporate bonds. The investment process combines rigorous fundamentally driven security selection from the credit analysts, which is expected to be the largest driver of performance, with asset allocation views.

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 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. CoCos 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/units 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. 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.

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

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