STRATEGIC BOND FUND

At a glance

Performance*
The Fund returned 9.60%, the Peer Group returned 6.93%

Contributors/detractors
The fund's high duration position (sensitivity to interest rates) in sovereign bonds and interest rate futures proved very positive for performance.

Outlook
Bond markets seem to be pricing in an economic 'soft landing'. We remain

bullish but feel corporate bonds offer limited value (except at the front end of the yield curve).

Portfolio management

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Investment environment

- It ended up being a positive quarter for risk assets, despite mid-October being extremely volatile. The US Treasury 10-year yield rose above 5% in late October as fears about "higher for longer" interest rates and worries about excess bond supply hit extreme levels. However, falling global inflation, moderating wage and employment growth and a shorter-dated and lower-than-expected quarterly Treasury refunding announcement all contributed to a turnaround in investor sentiment.
- Bond yields fell (prices rose, reflecting their inverse correlation) as the market became increasingly confident that the US Federal Reserve (Fed) and other major central banks around the world had reached a peak in interest rates, and that the only way from here was interest rate cuts. This was corroborated in communications from other major central banks. As a consequence, 10-year Treasury yields fell to 3.88% at the end of the year, making it a stellar quarter for bond holders. The faster inflation comes down, the faster interest rates will need to be cut to keep real rates at the same level. Therefore, to loosen monetary policy from the current restrictive state, interest rates would need to be cut faster than inflation falls.
- Many investors were cautiously positioned. This exaggerated the so-called 'Santa Claus rally' of November and December. European and UK bond markets were also very strong, not least because the economic growth/inflation trade-off looks worse here. Again, it seems that interest rates could be cut materially coming into the spring and summer of 2024. Equities rallied significantly and investment grade and high yield bond spreads (the difference in yield between equivalent government bonds) moved to very tight levels of 106 basis points (bps) and 360 bps respectively, marking the tightest levels they had been all year.

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.

Portfolio review

The vast bulk of the positive contributions to performance came from the fund's very high interest rate sensitivity (duration) position. This came from positions in higher-quality Western government bonds coupled with interest rate futures. The fund's investment grade bond holdings also performed very well, even though most of this is positioned towards the front and middle of the yield curve (and hence the duration contribution is lower than at other times in the cycle). Sterling sovereign bonds and corporate bonds outperformed other areas where the fund has an overweight position. We did marginally reduce the fund's duration position during December, taking profits on a favourable additional purchase made in the Autumn. However, the duration position still remains very high.

Manager outlook

Markets appeared to be euphoric at the end of 2023, given the rally that followed expectations of an imminent pivot in monetary policy. Certainly, investors seem to be pricing in an immaculate disinflationary outlook as corporate bond markets appear priced for perfection and entirely discounting an economic 'soft landing' (versus recession).

We are closely monitoring the lagged effects of monetary policy which, having positively slowed inflation, is soon to hit the employment markets. The effect that tighter financial conditions have on unemployment typically lags by around two years, and so we think the spring of 2024 will be a crucial time. The question is whether central banks can cut interest rates fast enough to glide into this elusive 'soft landing'. Equities typically correlate closely with employment growth, and rarely fall until the onset of a recession. The fund remains positioned in quality sovereign bonds and investment grade bonds with a high underlying interest rate sensitivity.

Performance (%)

Returns	Cumulative 1 Month	3 Month	YTD	1 Year	Annualised 3 Year	5 Year	10 Year	Since inception (25/11/03)
I Acc (Net)	5.14	9.60	4.40	4.40	-4.85	0.82	2.19	4.46
Peer Group	3.69	6.92	8.01	8.01	-1.26	2.21	2.63	3.70

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)	4.40	-17.55	0.08	10.33	9.58
Peer Group	8.01	-11.70	0.93	6.08	9.23

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 IA Sterling Strategic Bond sector average, after 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	11 October 1986
Total net assets	2.68bn
Asset class	Fixed Income
Domicile	United Kingdom
Structure	OEIC
Base currency	GBP
Peer group	IA Sterling Strategic Bond 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. 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. Since inception performance relates to the period from Nov 2003. Performance achieved prior to this date is not representative of the fund's current strategy. 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 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) forms the basis of the Fund's performance target and can be a useful performance comparison against other funds with similar aims.

Investment policy

The Fund invests in a global portfolio of bonds of any quality, including high yield (non-investment grade) bonds, issued by governments or companies. 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 hold other assets including bonds of other types from any issuer, preference shares, cash and money market instruments. In certain market conditions, the Fund may invest more than 35% of its assets in government bonds issued by any one body. 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 IA Sterling Strategic Bond sector average, which is based on a peer group of broadly similar funds, as this forms the basis of the Fund's performance target. The investment manager has complete freedom to choose individual investments for the Fund and to vary allocations between different types of bonds.

Investment strategy

The investment manager follows a flexible strategy that seeks to deliver total returns (capital appreciation and income) from investments across the entire spectrum of fixed income assets. Using careful macroeconomic research and credit analysis, the portfolio managers actively vary the allocation to different types of bonds to suit the prevailing economic environment.

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. 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. 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.

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

Janus Henderson INVESTORS

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