

FLEXIBLE INCOME FUND

At a glance

Performance*

The Fund returned 6.88%, the Index returned 6.82% and the Sector returned 5.10%.

Contributors/detractors

Positioning on the yield curve contributed positively, as the overweight to duration risk benefited from sharply falling yields. The overweight to spread risk further contributed.

Outlook

We believe the Fed's pivot from a rate-hiking to a rate-cutting cycle likely will result in a favourable multi-year outlook for fixed income returns.

Portfolio management



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Investment environment

- The Bloomberg US Aggregate Bond Index posted its strongest quarterly return in 34 years, driven primarily by the sharp decline in interest rates across the yield curve, and secondarily by the narrowing in corporate and securitised spreads.
- Markets benefited from the US Federal Reserve (Fed)'s dovish pivot at its December meeting. The central bank continued to hold rates steady following its last hike in July, and guided towards the potential for multiple rate cuts in 2024. With still relatively robust gross domestic product (GDP) growth and low unemployment, the Fed now expects a 'soft-landing' scenario for the US economy.
- November jobs growth exceeded expectations (coming in at 199,000 versus the estimate of 190,000) and the unemployment rate ticked back down to 3.7%. November annualised inflation was down 0.1% to 3.1%, and continued to move toward the Fed's target.
- The yield on the 10-year US Treasury ended the quarter at 3.88%, versus 4.57% at the end of the third quarter. Corporate investment grade credit spreads tightened 22 basis points (bps) to close at 99 bps, as investors priced in the end of the rate tightening cycle.

Portfolio review

The fund entered the period with a significant duration overweight position, as we believed the rate sell-off that spilled over from the previous quarter was unjustified, considering the progress that had been made on inflation, coupled with the likelihood that the Fed was done raising rates. We continued to add interest rate risk early in the period, with the fund's duration position touching seven years (its highest ever). This positioning proved to be the key positive contributor as rates began to rally in November, and then rallied sharply in December when the Fed made its dovish pivot.

We trimmed the duration position as rates rallied, but continued to maintain a duration overweight position. We believe that with a dovish Fed, rates are likely to fall further in 2024. We also like the defensive characteristics of higher-duration exposure in the event the economy cools more quickly than expected.

The fund also entered the period with more spread risk than the benchmark. This helped as spreads narrowed on the back of economic data that suggested the chances for a 'soft landing' had increased. Corporate investment grade credit spreads narrowed to under 100 bps - a level not seen for 24 months and a sign that the corporate credit market has embraced the soft landing. On an industry basis, the fall in rates particularly benefited the banking sector, and the fund's overweight position there contributed

Marketing communication

For US Financial Professionals servicing non-US persons.

Past performance does not predict future returns.

*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.

positively to relative returns. We modestly trimmed our positions in corporate credit as the sector outperformed.

The overweight to securitised sectors also contributed positively, particularly within agency mortgage-backed securities (MBS). We added to the overweight allocation to securitised sectors through selective purchases of high-quality commercial MBS.

As credit spread products delivered strong excess returns in the quarter, valuations seem to have priced in a lot of the more favourable outlook. Nevertheless, we continue to believe the yields available across these asset classes are attractive and may drive strong investor demand.

Manager outlook

Following two years of tough talk and aggressive rate hikes, the Fed delivered some holiday cheer by way of a dovish pivot at its December meeting. Inflation has made a sustained move back toward target and has allowed the central bank to signal its intent to transition from a 24-month tightening campaign to an easing cycle. This is broadly positive for the economy and fixed income markets.

Looser financial conditions and lower interest rates should bring some welcome relief for consumers and corporations. We also expect the Fed's dual mandate to shift back into balance. In 2022 and 2023, with inflation far too high, the central bank was focused only on one side of its mandate - namely, stable prices. But recently, given its increased confidence that inflation will move back to its 2% target, the

Fed highlighted the need also to focus on the other side of its mandate: full employment.

We believe the key result of this policy shift likely will be a favourable multi-year outlook for fixed income returns. We expect demand for the fixed income asset class to increase, as investors will be able to lock in attractive yields and benefit from the diversification that bonds may bring to multi-asset portfolios.

While the outlook has continued to improve, we must also acknowledge the risks. We believe we are yet to feel the full cumulative impacts of prior rate hikes. Monetary policy works in long and variable lags, and while the most intense headwinds of rising rates may be behind us, we should not discount the effect on the economy of a federal funds rate that is 525 bps above where it was a couple of years ago. As such, we think a slowdown in growth is likely, but the extent thereof remains an open question. Nonetheless, it bodes well that the Fed is now in a stronger position to lower rates if the economy shows signs of weakness.

In 2024, our focus will be on the health of the consumer, the job market outlook and how corporations fare through this environment. We still favour an overweight position to both credit spread risk and interest rate risk, as the economy remains resilient, and as rate cuts are now on the table. Further, we continue to favour securitised sectors for their relative value, as well as higher-rated assets for their defensiveness, in case we witness economic softening.

Performance (%)

Returns	Cumulative				Annualised		
	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
A2 USD (Net)	3.93	6.88	3.88	3.88	-4.90	0.21	0.43
Index	3.83	6.82	5.53	5.53	-3.32	1.10	1.81
Sector	2.46	5.10	4.73	4.73	-2.51	1.30	1.50
A2 USD (Gross)	—	—	—	—	—	2.11	2.38
Target	—	—	—	—	—	2.37	3.08

Calendar year	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A2 USD (Net)	3.88	-15.24	-2.33	8.89	7.90	-2.23	2.18	1.15	-1.14	3.44
Index	5.53	-13.01	-1.54	7.51	8.72	0.01	3.54	2.65	0.55	5.97
Sector	4.73	-10.17	-1.50	6.92	7.66	-1.19	4.08	2.23	-0.63	4.16

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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, while seeking to limit losses to capital (although not guaranteed) over the long term. Performance target: To outperform the Bloomberg US Aggregate Bond Index by 1.25% 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	24 December 1998
Total net assets	530.53m
Asset class	Fixed Income
Domicile	Ireland
Structure	Irish Investment Company
Base currency	USD
Index	Bloomberg US Aggregate Bond Index
Morningstar sector	USD Diversified 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. 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 and/or financial adviser if you have any queries. 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. 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. The ongoing charge is calculated using the PRIIP methodology. The PRIIP methodology differs to the UCITS ongoing charge methodology, as the PRIIP methodology captures additional recurring charges, including but not limited to: Interest paid on borrowing (e.g. bank interest); Any fees incurred in relation to stock-lending activity (i.e. the fee paid to the lending agent); Any costs associated with holding closed-ended vehicles. 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.

Investment policy

The Fund invests at least 67% (but typically more than 80%) of its assets in US bonds of any quality, including high yield (non-investment grade) bonds and asset-backed and mortgage-backed securities, issued by governments, companies or any other type of issuer. The Fund may also hold other assets including bonds of other types from any issuer, preference shares, cash and money market instruments. The investment manager may use derivatives (complex financial instruments) to reduce risk, to manage the Fund more efficiently, or to generate additional capital or income for the Fund. The Fund is actively managed with reference to the Bloomberg US Aggregate Bond Index, 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 draws on Janus Henderson's integrated fixed income and equity research function, to identify the best risk-adjusted opportunities for the Fund. The strategy has the flexibility to deviate significantly from the index on a sector basis while having a strong focus towards the US. The investment process is dynamic with allocations to different types of bonds determined by the opportunities which exist and is supported by a proprietary research and risk management system.

Fund specific risks

The Fund invests in Asset-Backed Securities (ABS) and other forms of securitised investments, which may be subject to greater credit/default, liquidity, interest rate and prepayment and extension risks, compared to other investments such as government or corporate issued bonds and this may negatively impact the realised return on investment in the securities. 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. 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. 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. The Fund involves a high level of buying and selling activity and as such will incur a higher level of transaction costs than a fund that trades less frequently. These transaction costs are in addition to the Fund's Ongoing Charges.

Janus Henderson
INVESTORS

FOR MORE INFORMATION PLEASE VISIT [JANUSHENDERSON.COM](https://www.janushenderson.com)

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

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