Janus Henderson INVESTORS

INSTITUTIONAL LONG DATED CREDIT FUND

At a glance

Performance*
The Fund returned 15.33%, the Index returned 15.08% and the Peer Group returned 7.81%.

Contributors/detractors
The fund's interest rate positioning, sector allocation and security selection were the main positive contributors to outperformance.

Outlook
While sentiment has rebounded, we maintain our cautious view on the economy and focus on high-quality issuers with strong liquidity and balance sheets.

Portfolio management

James Briggs, ACA, CFA

Tim Winstone, CFA

Investment environment

- Long-dated sterling investment grade credit delivered a strong positive total return over the quarter. Credit spreads tightened 29 basis points (bps) to 120 bps. Sterling-denominated investment grade credit outperformed its euro and US dollar peers, although all credit spreads tightened over the period.
- The last two months saw a strong rebound in performance for fixed income markets. After a difficult October, when risk was heightened by the conflict between Israel and Hamas, as well as the prospect of 'high for longer' interest rates, investors switched focus to the meaningful falls in inflation 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 bps in 2024, and many of the Fed's own projections of inflation falling further. This led to the US dollar weakening against most major currencies, declining to a five-month low versus sterling.
- UK inflation eased by more than expected, slowing to a 26-month low. Meanwhile, the third quarter GDP growth figure was revised down to -0.1%, after an initial estimate of zero growth. As expected, the Bank of England (BoE) maintained interest rates at 5.25% and cautioned that it had not discussed cutting interest rates in the immediate future.
- Nevertheless, over the quarter the UK 10-year gilt yield fell 90 bps to 3.54% (meaning prices rose) while the 30-year gilt yield fell by 76 bps to 4.14%.
- Looking to corporate bonds, improved investor optimism around future interest rate cuts, as well as prospects for economic growth, helped credit to outperform government bonds over the quarter. Within sterling investment grade bonds, spreads of financial debt tightened slightly more than non-financials. Within financials, subordinated bonds narrowed more than seniors, but the outperformance was marginal. Within non-financials, all major sectors saw significant spread tightening with the more cyclical areas, such as oil and gas, tightening the most. By contrast, spreads in the relatively defensive consumer goods sector tightened the least. In the primary market, gross supply amounted to £10.8 billion, resulting in a net deficit of £1.6 billion after redemptions over the quarter.

Portfolio review

Interest rate positioning was the main driver of fund performance, as bond prices rallied over the quarter, which benefited the fund's overall interest rate (duration) position. Within this exposure, the small overweight position to 30-year yields was slightly negative for relative performance as this area of the curve rallied a little less than the 10 and 20-year bonds. Sector allocation and security selection also contributed positively. However, the fund's underweight exposure to credit beta in the period of credit spread tightening held back relative performance. Although we aim to move the portfolio closer to neutral relative to the benchmark on credit beta, less supply at the longer end of the UK credit curve and a higher allocation to certain sectors in the longer end of the curve make this more difficult at the aggregate.

From an asset allocation perspective, the portfolio's under-exposure to gilts was helpful for relative returns as investment grade credit outpaced government bonds during the market rally. Elsewhere, our overweight allocations to oil and gas and banks, and an underweight position to personal and household goods, contributed positively. The key detractor was our short position in credit default swaps (CDS) given that lower-rated debt outperformed over the quarter. Our underweight position in industrial goods and services also hindered relative performance, although this was partially mitigated by issuer selection.

At the individual issuer level, there were a number of positive contributors in the utilities sector including Southern Water Services, Scottish and Southern Energy and Cadent Finance. Exposure to bonds issued by Heathrow Airport and the Wellcome Trust, a health research foundation, were also among the best contributors to performance. By contrast, positions in Pfizer bonds detracted from performance, following the US drugmaker's weaker-than-expected 2024 revenue forecast. An overweight position to, and issuer selection within, HSBC debt detracted as sentiment towards Asian-exposed banks weakened given concerns over the outlook for economic growth in China.

Portfolio activity was modest over the quarter. We remained marginally underweight to utilities due to a lack of issuance at the longer end of the curve by our favoured issuers. We sold down the fund's exposure in UK utility firm Thames Water, after it continued to experience negative market sentiment, following concern over its ability to service its high debt level. Mindful of our sector underweight position, we added debt from housing associations People for Places Homes and Realty Income (which is headquartered in the US), although we remain cautious over the quality of issuance in this area.

Manager outlook

The last two months have seen a strong rebound in sterling bond markets. The main catalyst for the change in fortune came from a significant shift in interest rate expectations. Investors are increasingly confident that the major central banks have finished their aggressive cycle of interest rate hiking and may soon begin to cut rates.

We remain broadly constructive on investment grade credit, although we maintain our conservative stance here, 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 interest cuts will likely be the key in determining the outcome. We believe rates are going to fall. Hence, we are comfortable in maintaining the fund's marginal overweight duration exposure, although at the trimmed levels that we completed through the fourth quarter. While we believe that investment grade bond 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. As a result of this view, we will continue to seek to add value by exploring market dislocations through relative value trades and new issues in the primary market.

Banking and other financial credits continue to look attractive to us, therefore we are happy with the overweight position for now. However, we remain watchful for any reductions in quality and diminishing catalysts for continued outperformance.

Performance (%)

Returns	Cumulative 1 Month	Cumulative 3 Month	Cumulative YTD	Cumulative 1 Year	Annualised 3 Year	Annualised 5 Year	Annualised 10 Year	Annualised Since inception (04/09/00)
I Acc (Net)	8.57	15.33	9.28	9.28	-12.54	-1.88	2.23	4.18
Index	8.90	15.08	10.63	10.63	-11.91	-1.62	2.68	4.57
Peer Group	4.25	7.81	9.26	9.26	-3.59	1.15	2.64	3.67
I Acc (Gross)	—	—	—	—	—	-1.36	2.78	4.74
Target	—	—	—	—	—	-0.64	3.71	5.61

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)	9.28	-34.83	-6.04	15.79	17.37
Index	10.63	-34.41	-5.76	14.76	17.43
Peer Group	9.26	-16.36	-1.94	7.87	9.52

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 an income with the potential for capital growth over the long term. Performance target: To outperform the Markit iBoxx GBP Non-Gilts greater than 15 years to maturity Index by 1% 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	18 April 1997
Total net assets	110.94m
Asset class	Fixed Income
Domicile	United Kingdom
Structure	OEIC
Base currency	GBP
Index	Markit iBoxx GBP Non-Gilts greater than 15 years to maturity Index
Peer group	IA Sterling Corporate Bond

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. 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 Markit iBoxx GBP Non-Gilts greater than 15 years to maturity Index is a measure of the combined performance of investment grade corporate bonds issued in pounds sterling with greater than 15 years to maturity. 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 at least 80% of its assets in Sterling-denominated investment grade (equivalent to BBB rated or higher) corporate bonds, typically with maturities of 15 years or more. (Longer dated bonds are generally more sensitive to changes in interest rates and may at times exhibit significant volatility.)The Fund may also hold other assets including bonds of other types from any issuer, 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 Markit iBoxx GBP Non-Gilts greater than 15 years to maturity 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. As an additional means of assessing the performance of the Fund, the IA Sterling Corporate Bond sector average, which is based on a peer group of broadly similar funds, may also provide a useful comparator.

Investment strategy

The investment process combines asset allocation views with rigorous fundamentally driven security selection, which allows the managers to determine key economic themes and identify which industry sectors to favour or avoid.

Fund specific risks

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. 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 is especially true for bonds with a longer time to maturity. A high portion of this fund is invested in longer maturity bonds and so rising interest rates can pose a significant risk to capital. 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. 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.

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