JANUS HENDERSON CAPITAL FUNDS PLC - JANUS HENDERSON ABSOLUTE RETURN INCOME OPPORTUNITIES FUND

A2 USD ISIN IE00BLTVXS96

At a glance

Performance

The Fund returned 0.55%, the Index returned 0.46% and the Sector returned 0.75%.

Contributors/detractors

Falling rates and the income generated on the fund's core resulted in positive performance. Positioning aimed at hedging interest rate risk was roughly flat.

Outlook

While uncertainty is not an investor's friend, the resetting of yields back to their historical range means that bonds can once again serve as a diversifier to a broader portfolio.

Portfolio management

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Investment environment

- Global bond returns were positive in March, with corporates, global sovereigns and US Treasuries all generating positive returns. The yield on the 10-year Treasury declined.
- While the US Federal Reserve (Fed) chose to leave rates steady at 5.25%-5.50%, it still expects to cut rates at some point in 2024.
- The US February jobs report was somewhat mixed, as new jobs added exceeded expectations but the unemployment rate of 3.9% also rose. The February inflation reading of 3.2% was a modest uptick from the 3.1% January reading.
- Investment grade and high yield credit spreads ended the month tighter, as investors increased their risk appetite due to hopes that rate cuts in the US and Europe are on the horizon.

Portfolio review

We seek to generate consistent returns by focusing on higher-quality, shorter-dated credits that tend to offer attractive income generation - or carry - as they near maturity. The primary positive contributors during the month were carry on securities and the added tailwind of declining rates.

Given continued interest rate volatility, we deployed securities intended to dampen the impact of future rate swings, which generated flat returns during the month.

While economic data, especially in the US, has proven resilient, we believe that with each passing month we are nearing the point where policy rates will inevitably tick lower. Stickier-than-expected inflation may push back the start of the rate-cutting cycle in the US. However, countries facing an acute economic slowdown may have to turn dovish more quickly than the Fed. With this eventual turn of the cycle in mind, we maintained portfolio duration in a neutral range, finishing the month at 1.67 years.

Manager outlook

Thanks to effective monetary policy, inflation is declining and recession risk is now much lower in many markets. In such jurisdictions, this scenario is favourable for riskier assets. While an economic 'soft landing' is most people's base-case scenario, we are undeniably late in the policy cycle. At this stage, we believe quality is of paramount importance. This set-up could incentivise those holding large amounts of cash on the side-lines to consider raising their risk allocations. Typically, the first stop in this reallocation is safer pockets of the market, including sovereign and investment grade corporate bonds.

Many investors have little to no duration exposure as they have opted to pile into money market funds. Here, extending interest rate risk (or duration) might be an option and we are attracted to issuance within the one-to-three-year range, given the consensus view that the next move in policy rates in the US and most other major markets is down. We believe this could be particularly true for European bonds, as the European Central Bank (ECB) may be forced to cut rates before many of its developed market peers.

In the US, the upwardly revised inflation and gross domestic product (GDP) estimates indicate that a downward move further out along the curve could be more limited. Additional upside growth surprises could even see yields rise modestly. With policy rates seemingly at their cycle peak, we expect more stability on the front end of the curve. Although the expected early 2024 cuts have been delayed, their near inevitability means that shorter-dated tenors could be positioned for capital appreciation as central banks move away from restrictive stances.

Geopolitical tensions remain high, with conflict impacting energy and agricultural flows. Additionally, a series of consequential elections will take place throughout the year. While uncertainty is not an investor's friend, the resetting of bond yields back to their historical range means that a mix of sovereign bonds, high-quality corporate bonds and securitised products can once again serve as a diversifier to a broader portfolio in the event of a sell-off in riskier assets, while at the same time generating attractive levels of income.

Performance (%)

Returns	Cumulative 1 Month	3 Month	YTD	1 Year	Annualised 3 Year	5 Year	10 Year	Since inception (29/09/14)
A2 USD (Net) with sales charge	-4.48	-4.13	-4.13	0.38	-0.03	1.01	—	0.46
Index	0.46	1.37	1.37	5.52	2.70	2.07	—	1.46
Sector	0.75	-0.56	-0.56	5.17	-1.94	0.55	—	0.60
A2 USD (Net)	0.55	0.92	0.92	5.67	1.69	2.05	—	1.01

Calendar year	YTD at Q1 2024	2023	2022	2021	2020	2019
A2 USD (Net)	0.92	6.55	-2.01	-0.57	2.64	2.92
Index	1.37	5.26	1.50	0.05	0.58	2.25
Sector	-0.56	8.11	-11.69	-3.12	7.98	6.10

Performance is on a net of fees basis, with gross income reinvested. Source: at 31/03/24. **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.**

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.

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Fund details

Inception date	29 September 2014
Total net assets	$32.67m
Asset class	Fixed Income
Domicile	Ireland
Structure	Irish Investment Company
Base currency	USD
Index	FTSE 3-Month US Treasury Bill Index
Morningstar sector	Global Flexible Bond

Investment objective

The Fund aims to provide a return, from a combination of income and capital growth. The Fund invests at least 80% of its assets in a global portfolio of debt securities of any quality, including asset-backed and mortgage-backed securities, high-yield securities, investment grade, non-investment grade or unrated securities, issued by governments or companies. The investment manager makes extensive use of derivatives (complex financial instruments), with the aim of making investment gains in line with the Fund's objective, to reduce risk or to manage the Fund more efficiently.

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 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. 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. 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. 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. 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. 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. 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. 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.

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Janus Henderson INVESTORS

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