COMMENTARY

Janus Henderson Horizon Euro Corporate Bond Fund

August 2023

Marketing communication - For professional investors only
Past performance does not predict future returns

Fund Managers Names

Tim Winstone, CFA, Tom Ross, CFA

Investment environment

Euro investment grade credit (proxied by the iBoxx Euro Corporate Bond Index) returned 0.1% over the month, with credit spreads moving 10 basis points (bps) wider. Market returns reflected a rise in core yields and the widening of credit spreads. The European Central Bank (ECB) and the US Federal Reserve (Fed) were not scheduled to make policy decisions, but the Bank of England (BoE) raised policy rates 25 basis points (bps) early in the month. Late data in August resulted in a negative surprise to the global growth outlook and, in Europe, signified a persistence of inflation expectations that led the president of the ECB to reiterate that the central bank's policy rates will not be relaxed until price movements fall back to target. At the regional level, euro-denominated investment grade corporate bonds moved little in relation to US or UK equivalents. In 10-year government yields, German bunds fell 3 bps to 2.47%, US Treasuries rose 15 bps to 4.11% and UK gilts rose 5 bps to 4.36%.

Sector differentiation was negligible between financial issues and the remainder of the market. Ratings and other aspects of seniority were not drivers of relative performance within financials, excepting issuer-specific fundamentals. Senior issuance marginally outperformed subordinated issues at the industry level and real estate moved in line with the lower tiers of the capital structure of the industry group. Outside of the financial sectors, spread moves were predominantly idiosyncratic, with notable widening in basic materials and automotives. Euro investment grade bond supply slowed to €31.3 billion gross and €4.8 billion after maturities in the month.

Portfolio review

The fund posted a positive return in August and performed in line with its benchmark.

Security selection contributed positively to performance, largely as a result of the fund's active participation in primary issuance. The fund's long interest rate duration relative to the benchmark detracted marginally from performance, while its neutral position to credit beta had no material effect. The fund's large overweight position in banks contributed to performance, and security selection in some key banking names was strongly positive. An underweight position in food and beverage and an overweight position in oil and gas also contributed positively to returns, with security selection effects also contributing. Conversely, the fund's underweight allocation to industrials and chemicals detracted from performance, mostly due to security selection. While the fund was flat real estate versus the benchmark, the pick of higher beta names detracted from relative returns, such as Logicor and Vonovia.

Single-issuer contributors included several banking names such as Permanent TSB, which continued to perform well on the back of its upgrade from high yield to investment grade, and Commerzbank, where the new subordinated bond continued to perform post issue in July, as did some of the legacy bonds. Some of our short-dated bank bonds also contributed, namely Estonian bank Luminor and Iceland-based Islandsbanki. Mining company Anglo American also detracted from performance, after it spread widened over the month in line with the basic resources sector (the worst-performing sector in the market).

Manager outlook

We covered the underweight position to credit beta relative to the fund's index over the month, to bring it close to neutral. Leading recessionary indicators such as inverted yield curves and money supply are still pointing negative, but the timing of recession is unclear. There has been a bit of a narrative shift in the US, with the strong employment data and services sector holding up as consumers continue to spend.

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Recent data suggest that a 'no-landing' scenario is problematic to central banks as they attempt to establish a hard line on inflation expectations. This has the effect of raising long-term yields, as the market shifts from debating when the last hike will be, to thinking of the timing of the first cut. We acknowledge that the probability of a soft landing has increased, with the caveat of the latest weak growth assumptions for China. Labour markets are not exhibiting the softness that policymakers would like to see, raising the rate profile. However, industrial and financial issuers look well prepared for softer demand. We expect a modest further tightening of monetary conditions by the ECB - from policy rate levers and the unwinding of its asset purchase portfolios. This is data-dependent and increasingly well communicated. In terms of the market technical, the unwinding of central bank assets and talking down of the peak rate cycle may result in wider spreads and higher carry on corporate debt.

Company earnings data has been mixed. Lower profit margins over the summer for companies in sectors such as chemicals and industrials suggest we could be entering a potential manufacturing industrial recession. That said, the chemicals sector - which was weak earlier in the summer and is typically one of the first sectors to trend negative during a recession - was significantly tighter in August. Cyclical industrial sectors feel challenged on growth, but this is not feeding through to credit spreads.

We believe that tighter lending standards, higher refinancing costs and a slowing economy will gradually take its toll on credit quality, causing default rates to increase. In the event of a hard landing, we do not expect to see the previous high single-digit default percentages as a recession is widely anticipated and most companies have prepared for this with low leverage and plenty of cash on their balance sheets.

Investment grade corporate bond valuations do not seem to be pricing in any recession, with spreads close to long-term averages on a rating-adjusted basis. In comparison, the yields on offer are notably above average and provide some cushion against spread widening through more attractive carry.

We do expect more 'trouble credits' to emerge as the lagged impact of tighter policy takes effect. For this reason, and in line with our more cautious stance, we continue to tilt the composition of our bond holdings towards high-quality, non-cyclical companies with strong liquidity and fundamentally robust balance sheets. Nimbleness and careful credit selection remains key, and we will continue to adhere to our research-driven investment process, with a focus on taking what we see as the right amount of risk throughout the cycle.

Source: Janus Henderson Investors, as at 31 August 2023

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Fund information (Investment policy is on the next page)

Index	iBOXX Euro Corporates Index
Morningstar sector	Europe OE EUR Corporate Bond
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 iBOXX Euro Corporates Index by 1.5% per annum, before the deduction of charges, over any 5 year period.

Performance in (EUR)

Performance %	A2 (Net)	Index	Sector	A2 (Gross)	Target (Gross)
1 month	0.1	0.1	0.1	-	-
YTD	2.6	3.3	3.0	-	-
1 year	-0.9	1.0	0.8	-	-
3 years (annualised)	-4.3	-3.5	-3.3	-	-
5 years (annualised)	-1.5	-1.0	-1.2	-0.4	0.4
10 years (annualised)	0.7	1.0	0.7	1.9	2.5

Source: at 31 Aug 2023. © 2023 Morningstar. All rights reserved, performance is with gross income reinvested. Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period.

Calendar year returns %	A2 (Net)	Index	Sector
2023 to 30 Jun 2023	1.7	2.2	2.0
2022	-16.1	-14.2	-13.4
2021	-1.5	-1.1	-1.0
2020	3.8	2.7	2.2
2019	6.4	6.3	5.6
2018	-1.5	-1.3	-2.2
2017	2.8	2.4	2.5
2016	4.2	4.7	4.1
2015	-1.7	-0.7	-0.5
2014	7.6	8.2	6.8
2013	2.8	2.2	2.7

Source: at 30 Jun 2023. © 2023 Morningstar. All rights reserved, performance is with gross income reinvested. Discrete performance data may change due to final dividend information being received after quarter end.

Investment into the fund will acquire units/shares of the fund itself and not the underlying assets owned by the fund.

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.

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 http://www.janushenderson.com.

Source for target returns (where applicable) – Janus Henderson. 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 if you have any further queries.

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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.

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What are the risks specific to this fund?

- 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.
- 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.

General risks

- 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.
- Tax assumptions and reliefs depend upon an investor's particular circumstances and may be subject to change.

Investment policy

The Fund invests at least 80% of its assets in investment grade corporate bonds and other types of investment grade bonds, denominated in Euros. 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 iBOXX Euro Corporates 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.

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For further information on the Luxembourg-domiciled Janus Henderson fund range please contact your local sales office or visit our website: www.janushenderson.com.

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