

MEETING THE INCOME REQUIREMENTS OF INSTITUTIONAL CLIENTS

Continuing Education Programme

28 October 2021

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Fixed Income Client Portfolio Manager

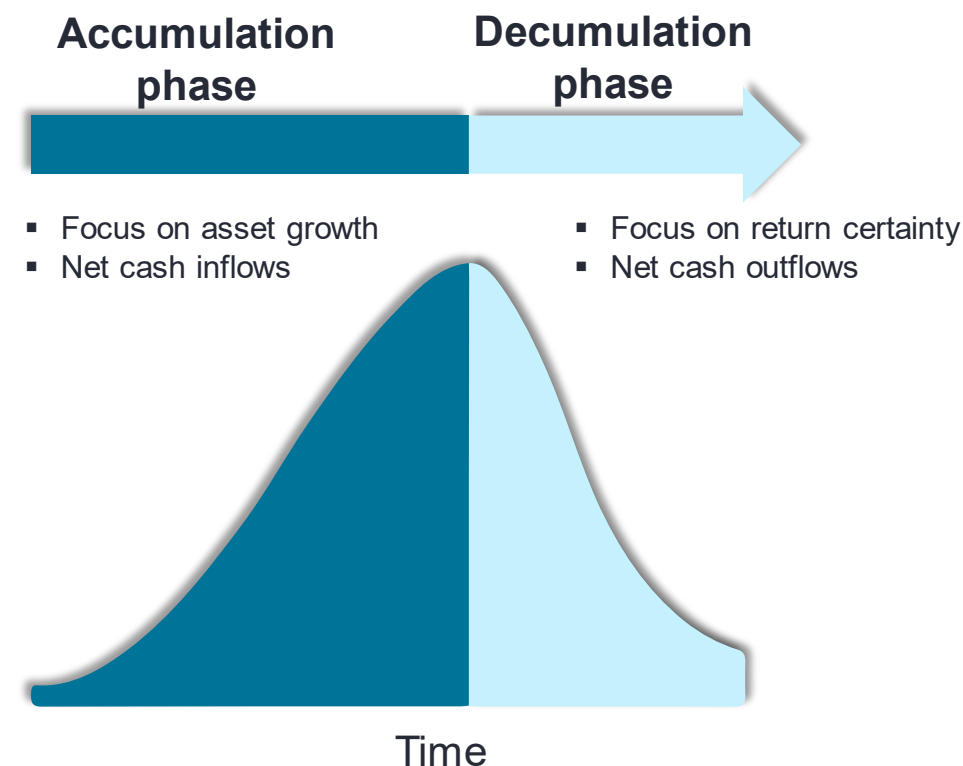
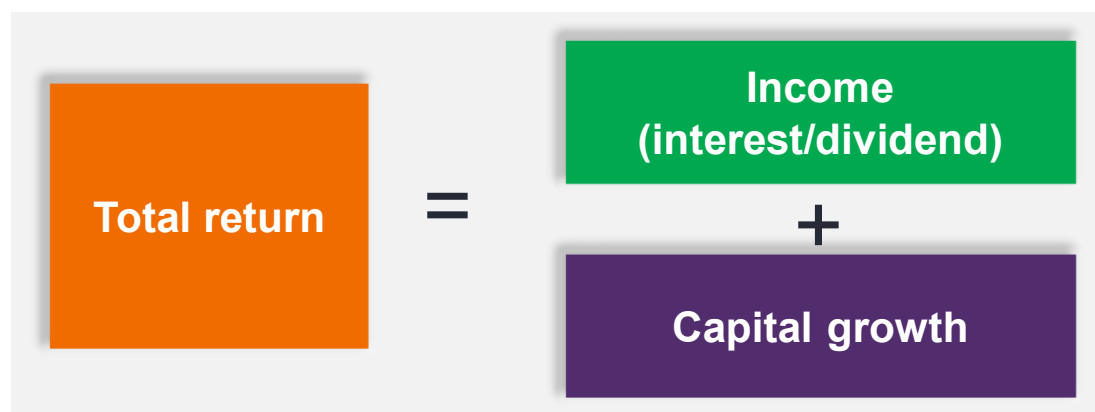


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WHO NEEDS INCOME AND WHY?

Important concepts



“Beware “Pound cost ravaging”

...the combination of volatility drag and sequencing risk, compounded by regular withdrawals during the decumulation phase

WHO NEEDS INCOME AND WHY?

DB Pensions


Many private sector DB schemes are cashflow negative; Income focused strategies helps to pay contractual pension liabilities with increased certainty.

DC Pensions

DC providers are allowing members to stay invested and access pension freedoms within the plan once they retire. With longer life expectancy, providing a reliable long-term income in retirement is essential.

Charities and Endowments

Most endowments and charities are designed to keep the principal amount intact while using the investment income for charitable efforts.



Risk tolerance and regulatory considerations determine how institutional investors navigate this path

WHAT INVESTMENTS CAN PROVIDE INCOME?



Bonds

- Corporate Bonds or Government Bonds
- Bond coupon payment, or 'interest', is contractual and fixed
- The interest % a bond varies based on a borrower's risk profile and the maturity of the bond



Private Debt

- Such as infrastructure debt, private corporate debt, property debt
- Contractual cashflows from a diversified asset base
- Yield uplift through illiquidity premia



Property

- Property let on long leases provides long term, inflation linked, income
- Yields generally higher than equally rated corporate bonds
- As owning buildings, the market is less liquid



Preferred Stock

- Equity investments
- Set a dividend that must be paid in 'preference' to owners of the common stock
- Higher fixed-income payments than bonds



Equities

- Dividends paid to share holders from company profits
- Dividend stocks generally riskier than bonds
- While companies generally like to maintain their dividend payout ratio, there are no guarantees

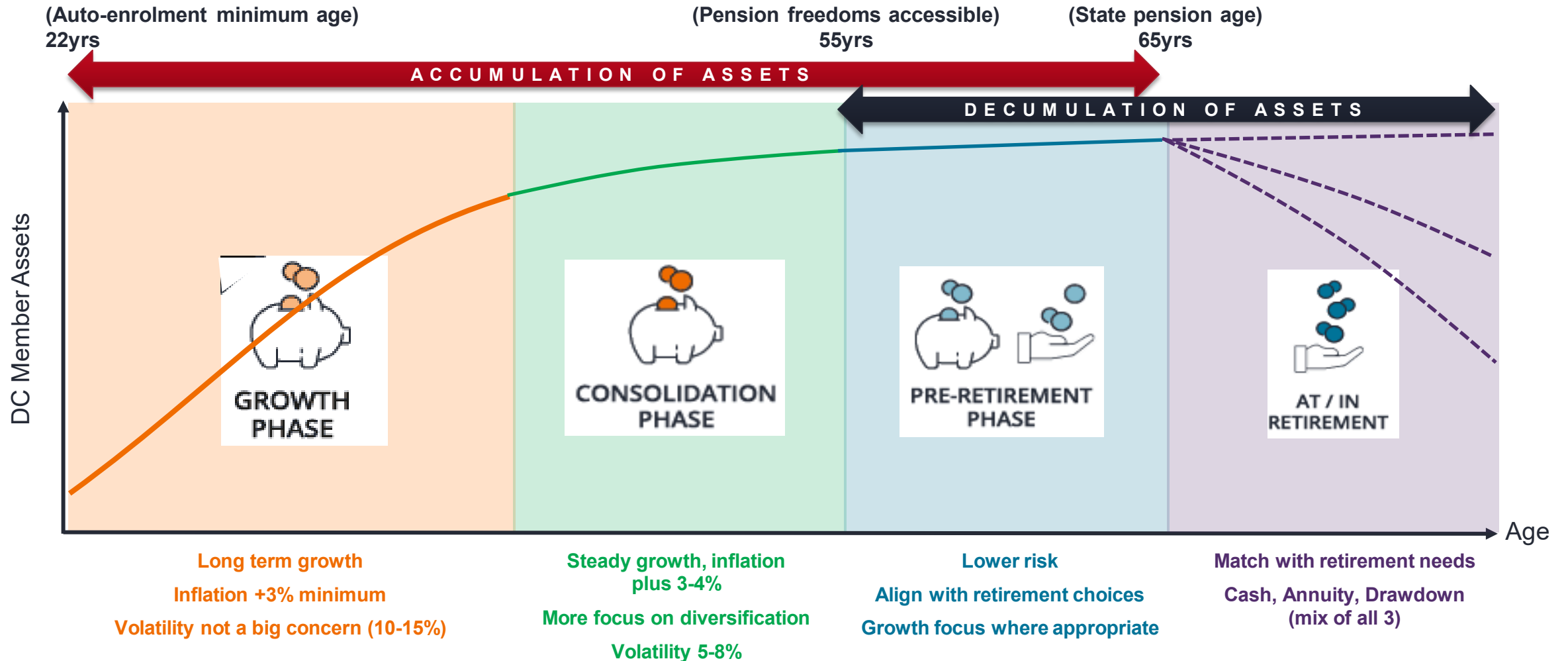
Source: *Mercer, European Asset Allocation Insights 2021 – UK DB De-risking Trends *Callan's 2021 Defined Contribution Survey

DEFINED CONTRIBUTION – WHAT CHANGED IN 2015

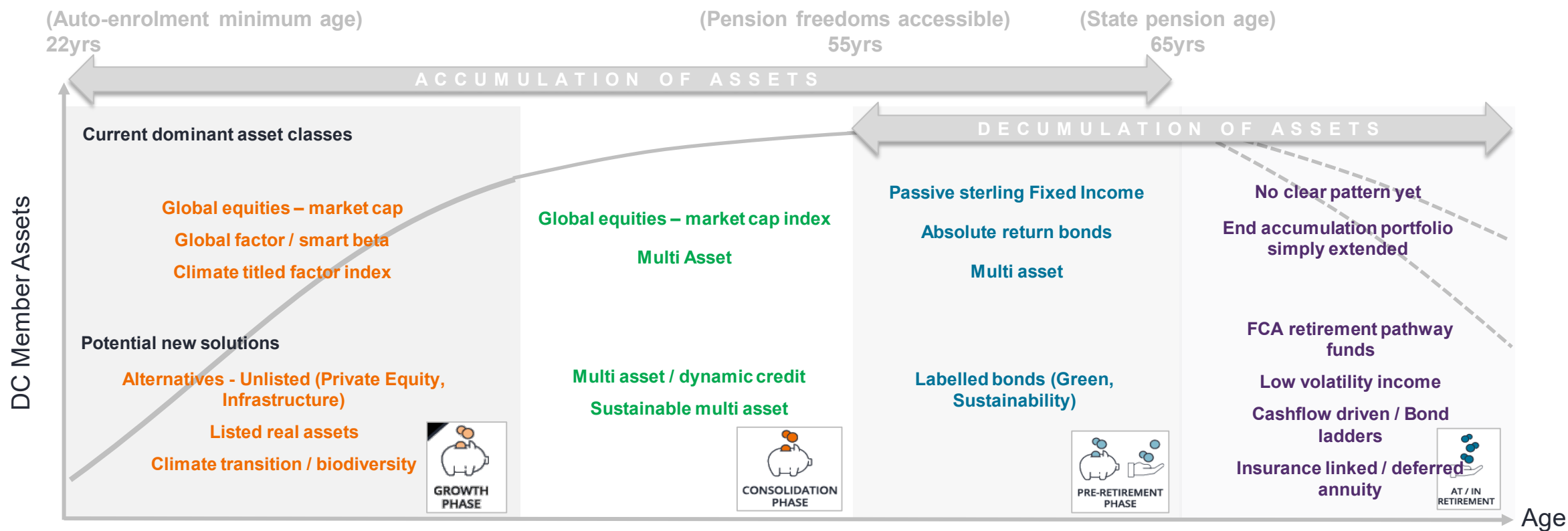


- Since 2015, Pension freedoms were introduced
- DC investors are able to remain invested at the point of retirement and drawdown income from their pension plan over time
- Most DC providers (particularly Master Trusts) now offer income drawdown within plan now, avoiding the need for people to go to retail platforms
- DC providers therefore need income drawdown investment solutions and a guidance/advice service to support people opting to invest for income

DEFINED CONTRIBUTION GLIDEPATH



DEFINED CONTRIBUTION GLIDEPATH

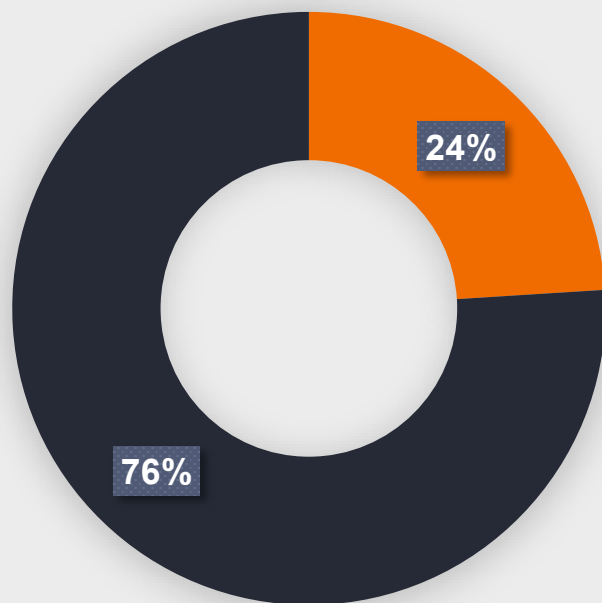


Source: Janus Henderson Investors

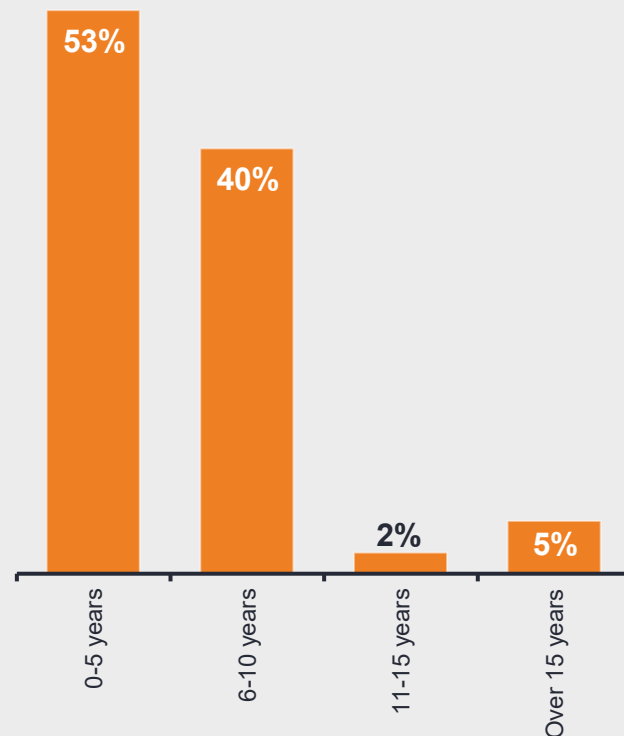
DEFINED BENEFIT SCHEMES – TURNING CASHFLOW NEGATIVE

Proportion of plans that are cash-flow negative

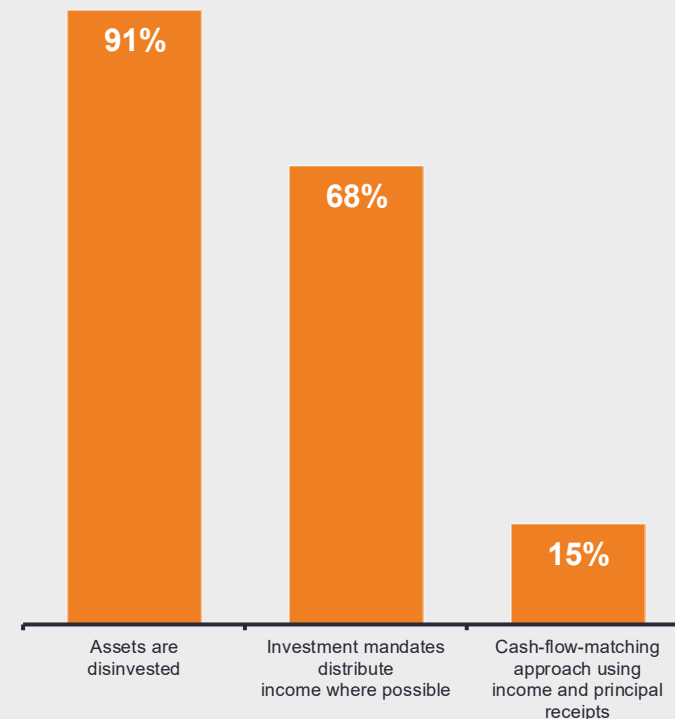
■ Yes
■ No



Expected time for cash-flow positive plans to become cash-flow negative



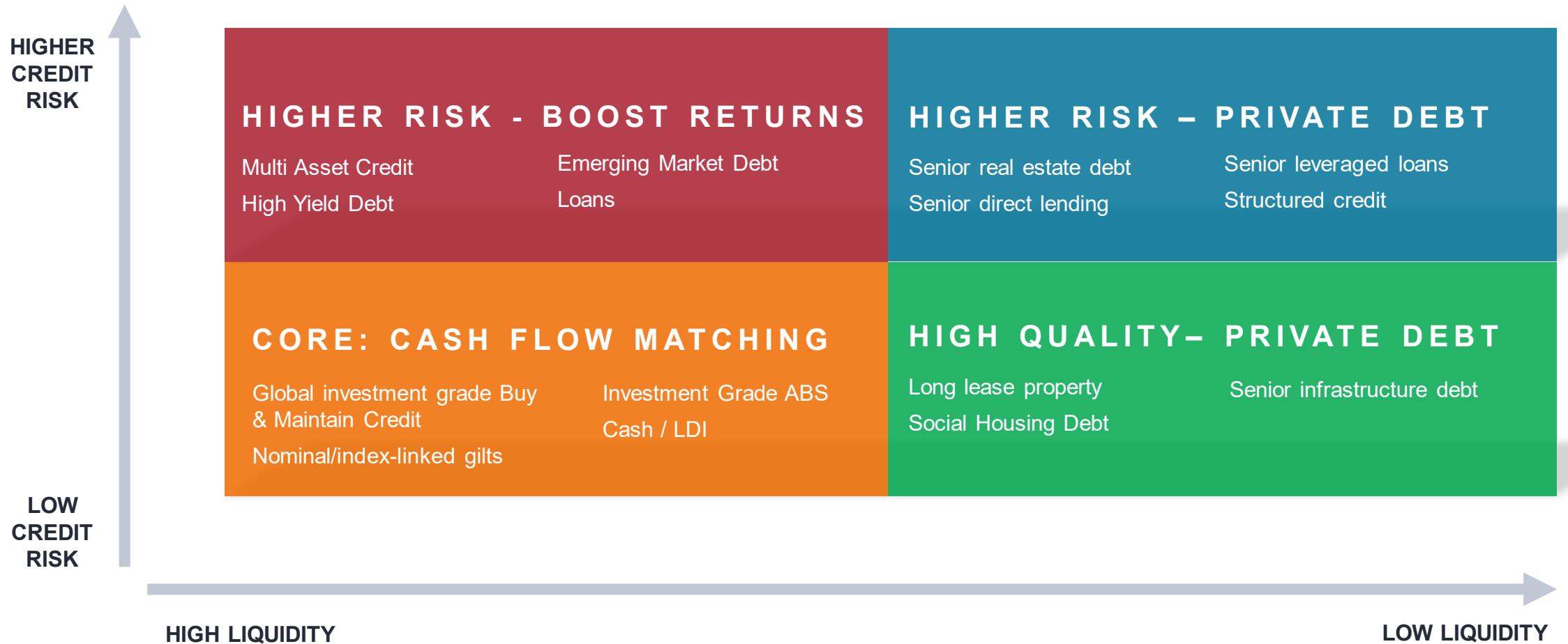
Methods of meeting Cash-Flow negative outgoings



Source: Mercer, European Asset Allocation Insights 2021 – UK DB De-risking Trends

DEFINED BENEFIT SCHEMES – BUILDING BLOCKS

Fixed income



DEFINED BENEFIT SCHEMES – BUILDING BLOCKS

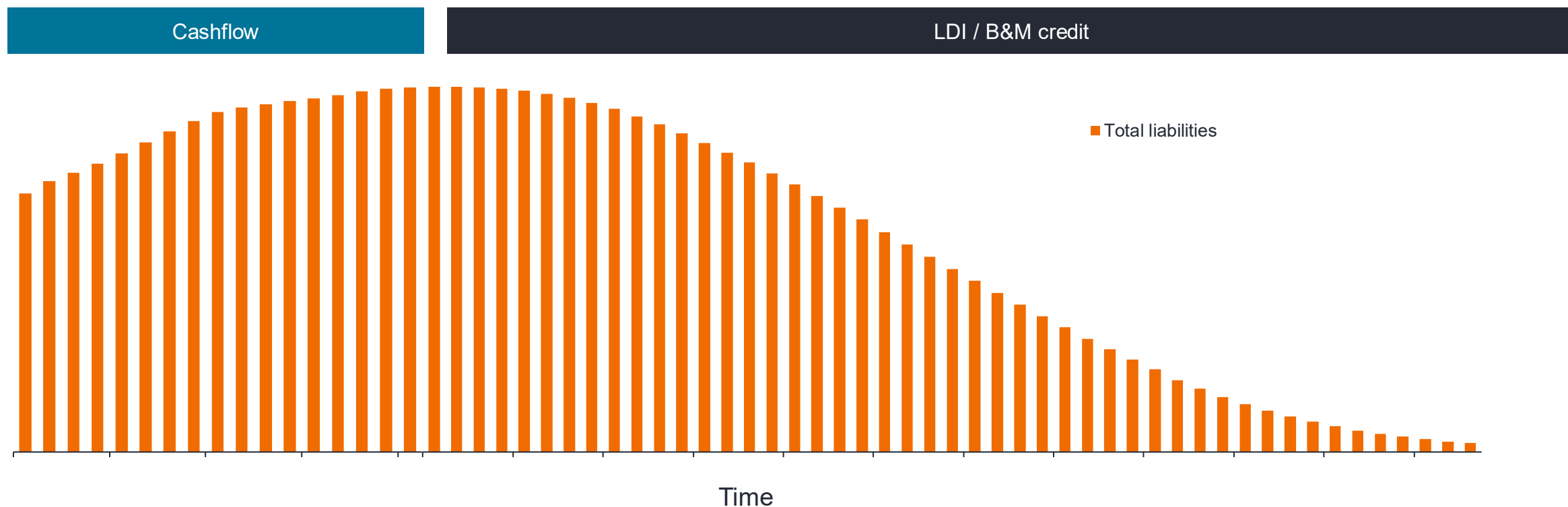
Fixed income (liquid)

HIGHER RISK - BOOST RETURNS Multi Asset Credit High Yield Debt	HIGHER RISK - PRIVATE DEBT Emerging Market Debt Loans	HIGHER RISK - PRIVATE DEBT Senior Loan Portfolio Special Situation Investing	HIGHER RISK - PRIVATE DEBT Special Situations Distressed Credit
CORE - CASH FLOW MATCHING Global Investment Grade Govt & Municipal Bonds Non-investment grade govts	CORE - CASH FLOW MATCHING Investment Grade ABS Credit LTR	HIGH QUALITY - PRIVATE DEBT Senior Loan Portfolio Special Situations	HIGH QUALITY - PRIVATE DEBT Special Situations Distressed Credit

Asset Class	Rating	Cash Flow Certainty	Yield Enhancement
Investment Grade Corporate Bonds	Investment Grade	★ ★	×
Emerging Markets Corporate Bonds	Investment Grade	★ ★	★
Asset-Backed Securities	Investment Grade	★	★
High Yield Corporate Bonds	High Yield	×	★ ★
Secured Loans	High Yield	×	★ ★
Cash & Money Market	Investment Grade	★	×

DEFINED BENEFIT SCHEMES – TYPICAL CASHFLOW PROFILE

Undiscounted long-term liability cash-flows

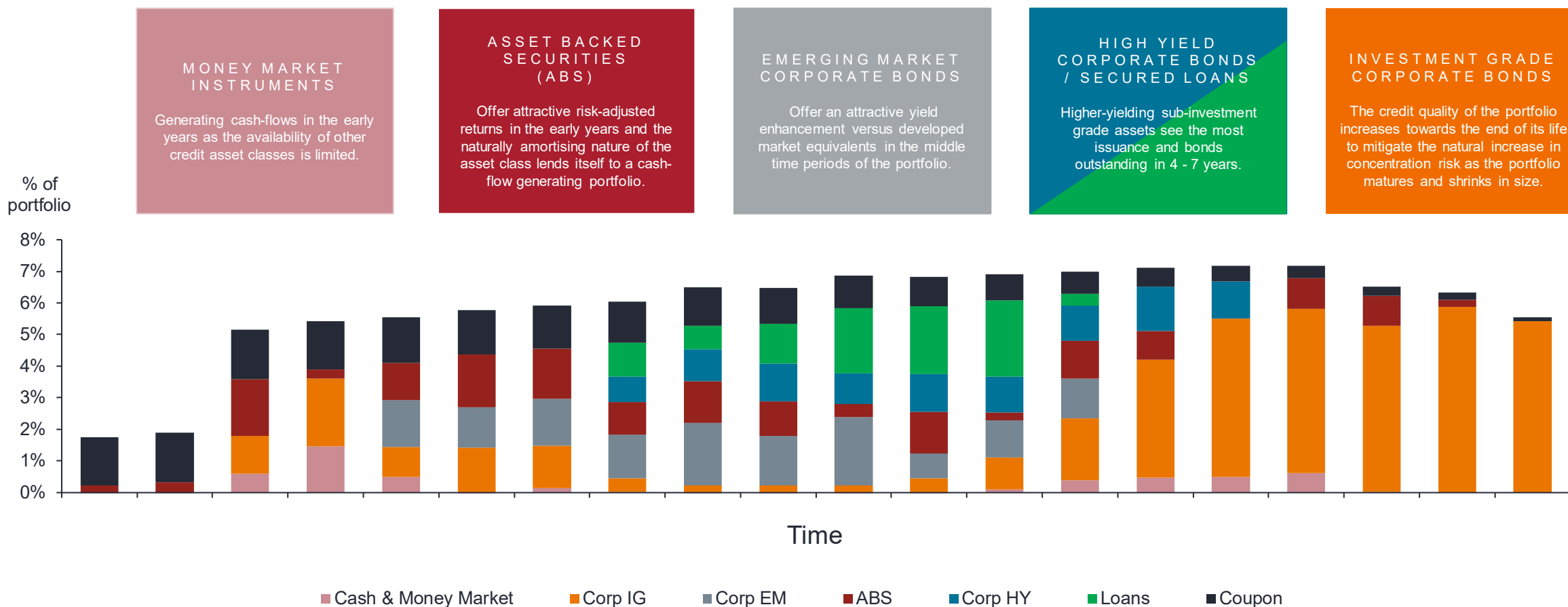


Source: Janus Henderson Investors, example pension scheme cash-flows, as at 30 September 2021

ILLUSTRATIVE PORTFOLIO – CASHFLOW PROFILE

Fixed term, amortising portfolio

HIGHER RISK - BOOST RETURNS	HIGHER RISK - PRIVATE DEBT
Multi-Sector Credit High Yield Debt	Emerging Market Debt Loans
CORE: CASH FLOW MATCHING	HIGH QUALITY - PRIVATE DEBT
Global Investment grade Div & Mktg Credit Non-investment grade div	Investment Grade AGG cash & LTR Credit from emerging market sovereign debt Credit from emerging market corporate debt



Source: Janus Henderson Investors, Illustrative bespoke portfolio, as at 30 September 2021.

KEY CONSIDERATIONS

Fixed term, amortising portfolio

HIGHER RISK - BOOST RETURNS Multi-Sector Credit High Yield Debt Emerging Market Debt Loans	HIGHER RISK - PRIVATE DEBT Direct Lending Private Equity Distressed Debt
CORE: CASH FLOW MATCHING Global Investment Grade Corp & Muni Bond Investment Grade ABS Cash & STB	HIGH QUALITY - PRIVATE DEBT Direct Lending Private Equity Distressed Debt

Default Risk

Re-Investment Risk

Currency Hedging

Interest Rate Duration

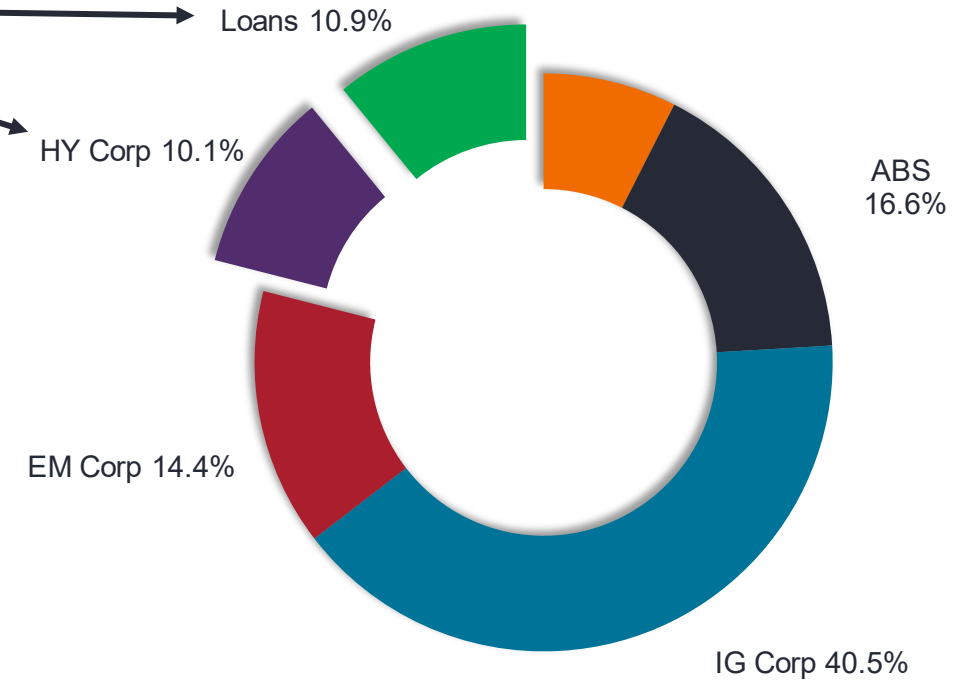
Source: Janus Henderson Investors, illustrative bespoke portfolio, as at 30 September 2021

INCREASED CREDIT RISK WITH HIGH-YIELD ASSETS

HIGHER RISK - BOOST RETURNS	HIGHER RISK - PRIVATE DEBT
Multi-Sector Credit High Yield Debt Loans	Distressed Debt Special Situation Structured Credit
CORE: CASH FLOW MATCHING	HIGH QUALITY - PRIVATE DEBT
Global Investment Grade Investment Grade Investment Grade	Distressed Debt Special Situation Structured Credit

Default risk
Stress scenario for sub-investment grade assets indicates a potential IRR reduction of **0.2% pa***

- Credit analysis
- Diversification
- Conservative portfolio construction



Source: Janus Henderson Investors, Illustrative bespoke portfolio, as at 30 September 2021.

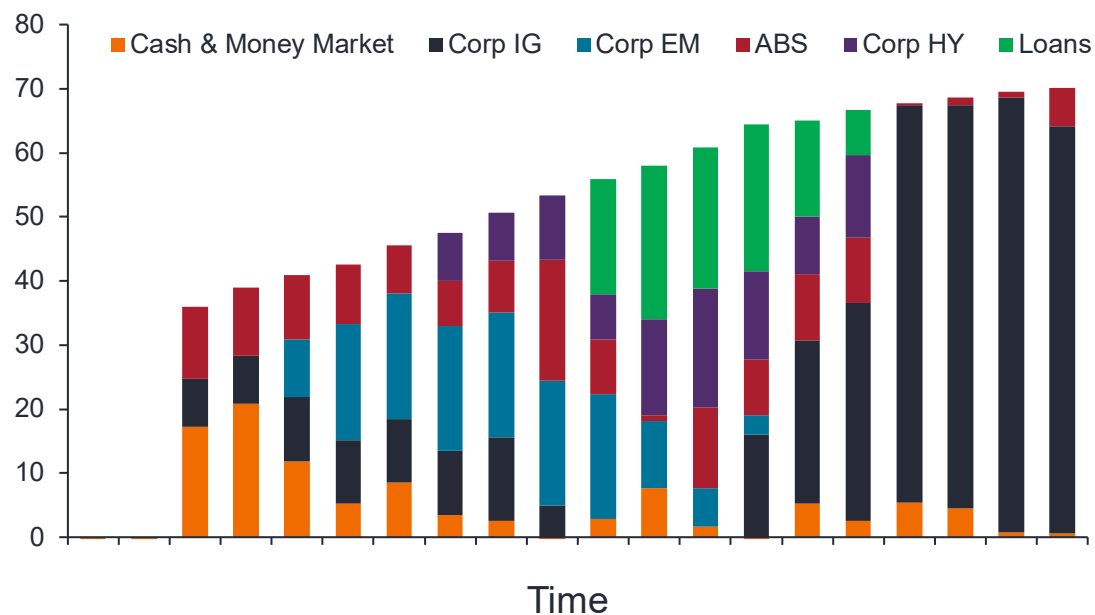
Notes: *Assumed 10% cumulative defaults in the sub-investment grade portfolio of assets at a recovery rate of 60%.

Target returns can not be guaranteed

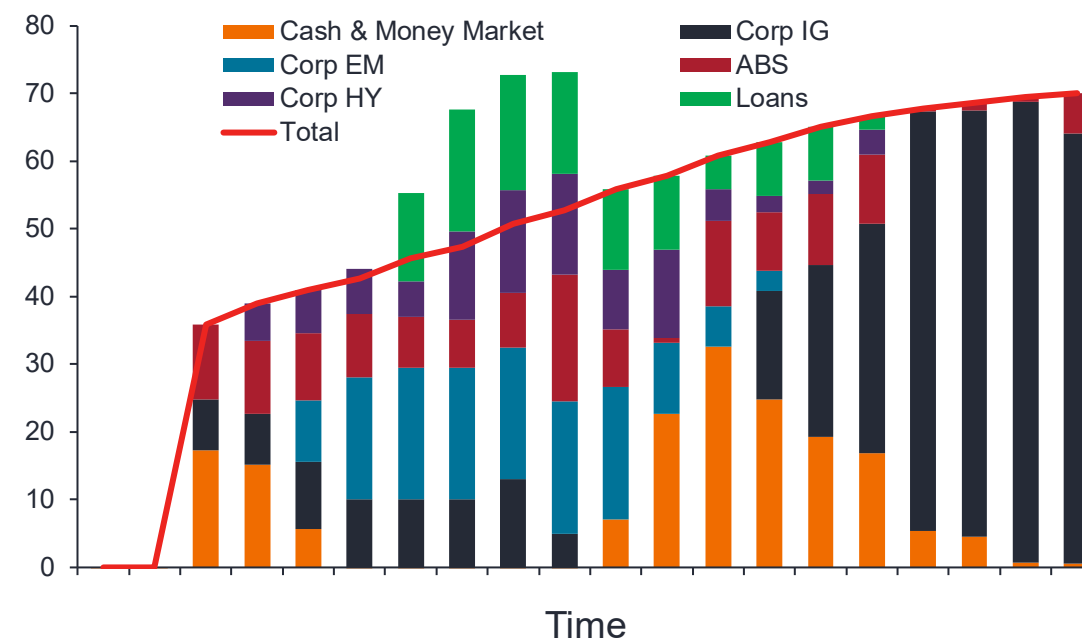
SUB-INVESTMENT GRADE ASSETS ARE CALLABLE

HIGHER RISK - BOOST RETURNS	HIGHER RISK - PRIVATE DEBT
Multi-Asset Credit High Yield Credit	Emerging Market Debt Loans
CORE: CASH FLOW MATCHING	HIGH QUALITY - PRIVATE DEBT
Global investment grade Hy & Non-investment grade Hy	Investment grade ABS Credit CDOs
	Loans Special Purpose Vehicle

Base case: Assume high yield and secured loans held until final maturity date



Prepayment risk: Assume 75% of high yield and secured loans prepay 2 years early
Stressed scenario has potential 0.2% impact on IRR



Source: Janus Henderson Investors, illustrative bespoke portfolio, as at 30 September 2021
 Notes: *Assumed 10% cumulative defaults in the sub-investment grade portfolio of assets at a recovery rate of 60%.
 Target returns can not be guaranteed

APPENDIX



BIOGRAPHY



Matt Argent

Fixed Income Client Portfolio Manager

Matt Argent is a Client Portfolio Manager on the fixed income team at Janus Henderson Investors. Prior to joining Henderson in 2009, Matt worked for Deloitte as an investment consultant and actuary.

Matt graduated with a BSc degree in economics from the University of Warwick. He is a Fellow of the Institute of Actuaries and holds the Investment Management Certificate. He has 18 years of financial industry experience.

Source: Janus Henderson Investors, as at 30 September 2021

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